The Fiscal Year 2018 Budget:

Legislative Fiscal Analyst's Overview of the Governor's Request

Legislative Finance Division

www.legfin.akleg.gov

The Legislative Finance Division has a professional, non-partisan staff that provides general budget analysis for members of the legislature and specifically supports the Legislative Budget and Audit Committee and the House and Senate standing finance committees. Each fiscal analyst is assigned agency areas of responsibility. Per AS 24.20.231 the duties of the office are to:

(1) analyze the budget and appropriation requests of each department, institution, bureau, board, commission, or other agency of state government;
(2) analyze the revenue requirements of the state;
(3) provide the finance committees of the legislature with comprehensive budget review and fiscal analysis services;
(4) cooperate with the Office of Management and Budget in establishing a comprehensive system for state budgeting and financial management as set out in AS 37.07 (Executive Budget Act);
(5) complete studies and prepare reports, memoranda, or other materials as directed by the Legislative Budget and Audit Committee;
(6) with the governor's permission, designate the legislative fiscal analyst to serve ex officio on the governor's budget review committee;
(7) identify the actual reduction in state expenditures in the first fiscal year following a review under AS 44.66.040 resulting from that review and inform the Legislative Budget and Audit Committee of the amount of the reduction; and
(8) not later than the first legislative day of each first regular session of each legislature, conduct a review in accordance with AS 24.20.235 of the report provided to the division under AS 43.05.095.

LEGISLATIVE FINANCE DIVISION
FISCAL ANALYST/BUDGET ASSIGNMENTS

Fiscal Analyst	Agency/Assignment	Phone
David Teal, Director	Governor, Legislature	465-3002
Rob Carpenter	Revenue, Transportation & Public Facilities, Capital Budget Coordinator, Statewide Debt/Revenues, Supplemental Budget Coordinator	465-5413
Kelly Cunningham	Corrections, Judiciary, Public Safety, Fiscal Note Coordinator	465-3821
Alexei Painter	Education & Early Development, Environmental Conservation, Natural Resources, Fiscal Summary, Fund Tracking, Non-petroleum Revenue/Tax Credits	465-5434
Amanda Ryder	Fish & Game, Health & Social Services	465-5411
Lacey Sanders	Commerce, Community, & Economic Development, Military & Veterans' Affairs, Operating Budget Coordinator	465-5410
Danith Watts	Administration, Labor & Workforce Development, Law, University of Alaska	465-5435

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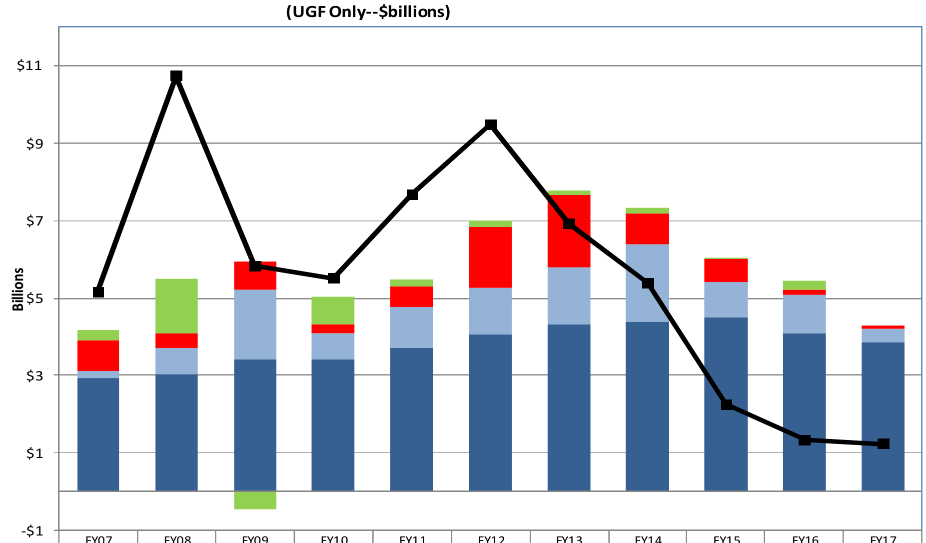
Introduction

As required by law, the Governor released his FY18 budget proposal to the public and the legislature on December 15, 2016. The Legislative Finance Division prepared this overview of the Governor's proposal and "Subcommittee Books" for each agency in accordance with AS 24.20.211-.231.

Alaska's Fiscal Situation

As he did a year ago, the Governor submitted a budget/plan that would radically improve Alaska's fiscal situation. For those unfamiliar with Alaska's fiscal situation, Figure 1—which was prepared for a presentation that predates the release of the FY18 revenue forecast and budget—provides a bit of history.

Figure 1: Total Agency Operating Budgets, Statewide Items and Capital Budget Compared to Revenue
(UGF Only--$billions)



	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Supplementals	0.3	1.4	(0.5)	0.7	0.2	0.2	0.1	0.1	0.0	0.2	-
Capital	0.8	0.4	0.7	0.2	0.5	1.6	1.9	0.8	0.6	0.1	0.1
Statewide Items	0.2	0.7	1.8	0.7	1.1	1.2	1.5	2.0	0.9	1.0	0.3
Agency Operations	3.0	3.0	3.4	3.4	3.7	4.1	4.3	4.4	4.5	4.1	3.9
TOTAL BUDGET	4.2	5.5	5.5	5.0	5.5	7.0	7.8	7.3	6.0	5.4	4.3
UGF Revenue	5.2	10.7	5.8	5.5	7.7	9.5	6.9	5.4	2.3	1.3	1.2
Revenue Covers % of Expenditures	123%	195%	106%	110%	140%	135%	89%	74%	38%	25%	29%

Takeaway points from Figure 1:

1. Spending (the bars) grew rapidly when revenue (the line) was high. Spending went from $4.2 billion in FY07 to $7.8 billion in FY13. That's about 9% annual growth—a rate that many knew was not sustainable.
2. Despite spending growth, budget surpluses were substantial through FY12.
3. Spending has been cut steadily since FY13. FY17 expenditures ($4.3 billion) are approximately the same level as in FY07.
4. Despite spending reductions, FY17 is the fifth consecutive year of substantial budget deficits.
5. Fiscal health is not just about spending; it also depends on how much money is available to spend.

6. Although spending in FY17 has returned to the FY07 level, revenue (the line) is far below historic levels. Revenue declined from an average of over $7 billion per year (FY07-FY13) to $1.2 billion in FY17—that's over 80%.
7. **Key point:** While spending in FY07 and FY17 are the same, there was a $1 billion surplus in FY07 and an anticipated $3.1 billion deficit in FY17.
8. Alaska saved a huge amount of money when revenue exceeded expenditures, but now revenue covers less than 30% of annual expenditures, leaving fiscal gaps that have been filled by pulling money out of reserves (primarily the Constitutional Budget Reserve fund (CBR)).
9. The CBR now holds only enough money to get through FY18.

In recognition of an unsustainable fiscal situation, the Governor's FY17 budget included a plan that did three things:

1. cut government spending (including Permanent Fund dividends (PFDs)),
2. increased revenue (income tax and some other, smaller taxes), and
3. used some earnings of the Permanent Fund to support government spending.

The Governor said that if the legislature didn't do all three, and do them soon, PFDs might go away and Alaskans would still have to pay taxes and experience service reductions.

The Governor's plan was not adopted by the legislature, and the fiscal situation is little changed from last year.

1. Government spending was reduced in FY17, both by the legislature and via the Governor's vetoes. But requested FY18 unrestricted general fund (UGF) spending is down less than $50 million from FY17. After adjusting for fund source changes and for items that the legislature may wish to add to the Governor's budget, FY18 UGF spending could be higher than last year.
2. None of the Governor's FY17 tax bills made it very far through the committee process. The Governor introduced a motor fuel tax bill that would increase FY18 revenue by about $35 million. According to the Fall Revenue Sources Book, the Department of Revenue has been working on an income tax bill that would generate about $500 million annually. Income taxes are not discussed in this overview because the Governor did not introduce that bill as part of his budget package.
3. As he did last year, the Governor proposed the use of Permanent Fund earnings to help balance the budget. The bill/plan he introduced is not the plan he submitted last year; it is similar to the bill (SB 128) that was adopted by the Senate during the 2016 session.

It is item 3 that would radically reduce Alaska's fiscal deficits—both short- and long-term. The Governor's budget includes a $2.5 billion payout from the Earnings Reserve Account (ERA) of the Permanent Fund. After using $700 million of that amount to pay dividends, the net revenue increase is $1.8 billion. After the Governor's proposed expenditures and revenue measures, the FY18 deficit is about $840 million.

That is a huge deficit, with revenue covering less than 85% of expenditures. It is, however, a huge improvement from the $3 billion to $4 billion deficits of the past three years.

The Governor's plan to include some Permanent Fund earnings in unrestricted general fund revenue is not only a radical departure from past practice, it literally changes history. The Permanent Fund has effectively been "off budget" since its inception—earnings have been omitted from unrestricted general fund (UGF) revenue, so spending of Permanent Fund earnings was also excluded from reported UGF expenditures.

Traditional treatment of Permanent Fund earnings—not counting them as either UGF revenue or UGF expenditures—is attributable to statutory formulas for dividends and inflation proofing. When statutes specify purposes/uses of a fund source (that would otherwise be classified as UGF) the fund source is classified as "designated general funds" (DGF). The DGF category of funds does not affect the deficit and is often omitted from reports of state spending.

In the proposed FY18 budget, classification of Permanent Fund earnings as "designated for purposes of inflation proofing and paying dividends" is no longer justifiable—

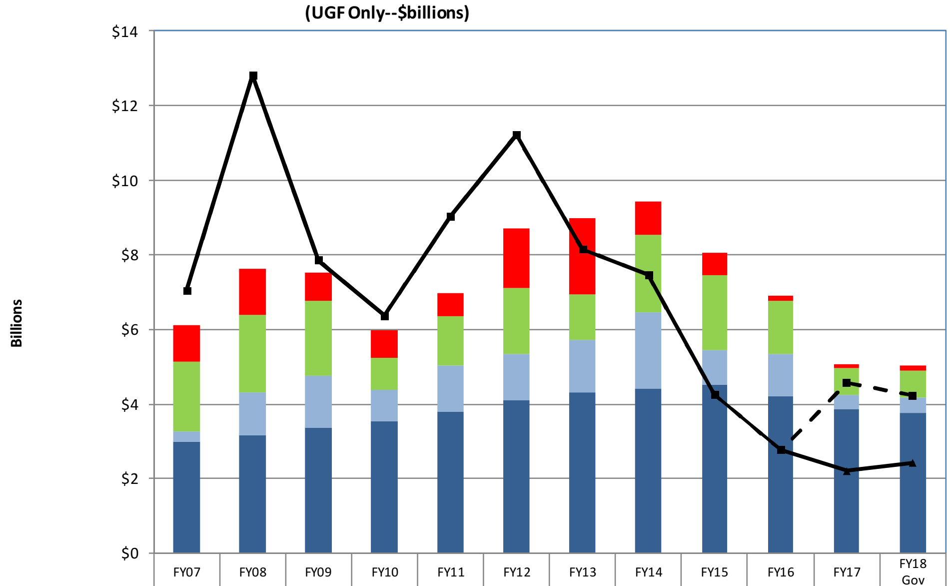
1. there is no inflation proofing in the Governor's budget,
2. dividends are paid from the unrestricted general fund, and
3. the only significant use of earnings is a payout to the unrestricted general fund.

In short, the Governor's budget formalizes what has been true since the Permanent Fund was established: the legislature can appropriate from the Earning Reserve Account (ERA) for any purpose. Based on the proposed use of the ERA—which is limited to a payout to the UGF—appropriations of Permanent Fund earnings are now classified as unrestricted general fund expenditures. As with every fund source reclassification, past appropriations are also reclassified in order to allow meaningful comparisons across fiscal years.

Figure 2 updates UGF revenue and expenditures to reflect the reclassification of Permanent Fund earnings. Appropriations for dividends and inflation proofing are added to the expenditure bars. UGF revenue for each year (the solid line) is adjusted upward by the amount of dividends and inflation proofing. The identical additions to revenue and expenditures leaves deficits unchanged.

The dashed revenue line for FY17 and FY18 shows the impact of percent of market value (POMV) payments from the Permanent Fund ERA to the general fund. The payments are based on a POMV of the Permanent Fund. The net payouts—the amounts by which the payouts exceed appropriations for dividends and inflation proofing—show as increases in UGF revenue.

Figure 2: Total Agency Operating Budgets, Statewide Items and Capital Budget Compared to Revenue
(UGF Only--$billions)



	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18 Gov
Capital	1.0	1.2	0.8	0.8	0.6	1.6	2.1	0.9	0.6	0.1	0.1	0.1
PF ERA Approps	1.9	2.1	2.0	0.8	1.3	1.7	1.2	2.1	2.0	1.4	0.7	0.7
Statewide Items	0.3	1.1	1.4	0.9	1.2	1.2	1.4	2.0	0.9	1.1	0.4	0.4
Agency Operations	3.0	3.2	3.3	3.5	3.8	4.1	4.3	4.4	4.5	4.2	3.9	3.8
TOTAL BUDGET	6.1	7.6	7.5	6.0	7.0	8.7	9.0	9.4	8.0	6.9	5.1	5.0
Total Revenue (Including POMV Payout)	7.0	12.8	7.9	6.4	9.0	11.2	8.2	7.5	4.2	2.8	4.6	4.2
Revenue Covers % of Expenditures	115%	168%	104%	106%	129%	129%	91%	79%	53%	40%	90%	84%
UGF Revenue (Status Quo)	7.0	12.8	7.9	6.4	9.0	11.2	8.2	7.5	4.2	2.8	2.2	2.4

Takeaway points from Figure 2:

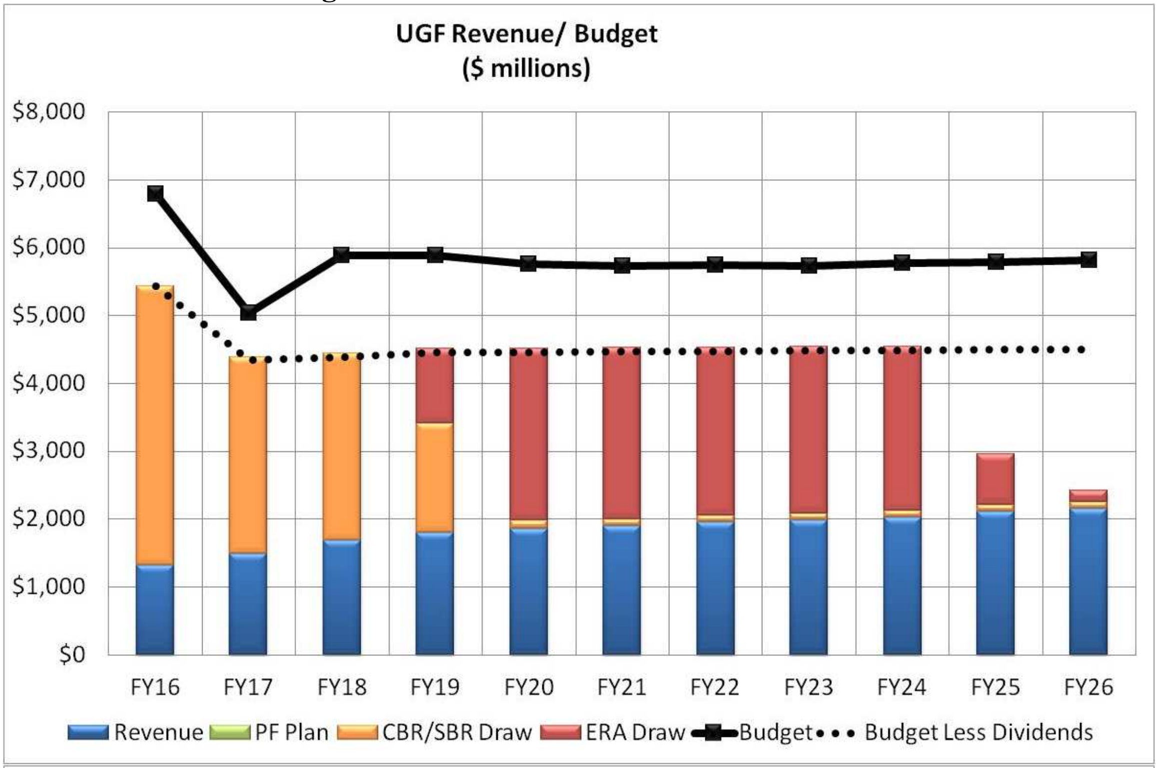
1. POMV payments close a large part of the deficit in FY17 and FY18
   a. The anticipated FY17 deficit is reduced from $2.9 billion to $537 million. Note that the proposed POMV payment is arguably too high because it fails to deduct the $700 million that was paid as dividends directly from the ERA in FY17.
   b. The anticipated FY18 deficit is reduced from $2.7 billion to $840 million.
2. A deficit remains in both FY17 and FY18 despite the POMV payment.

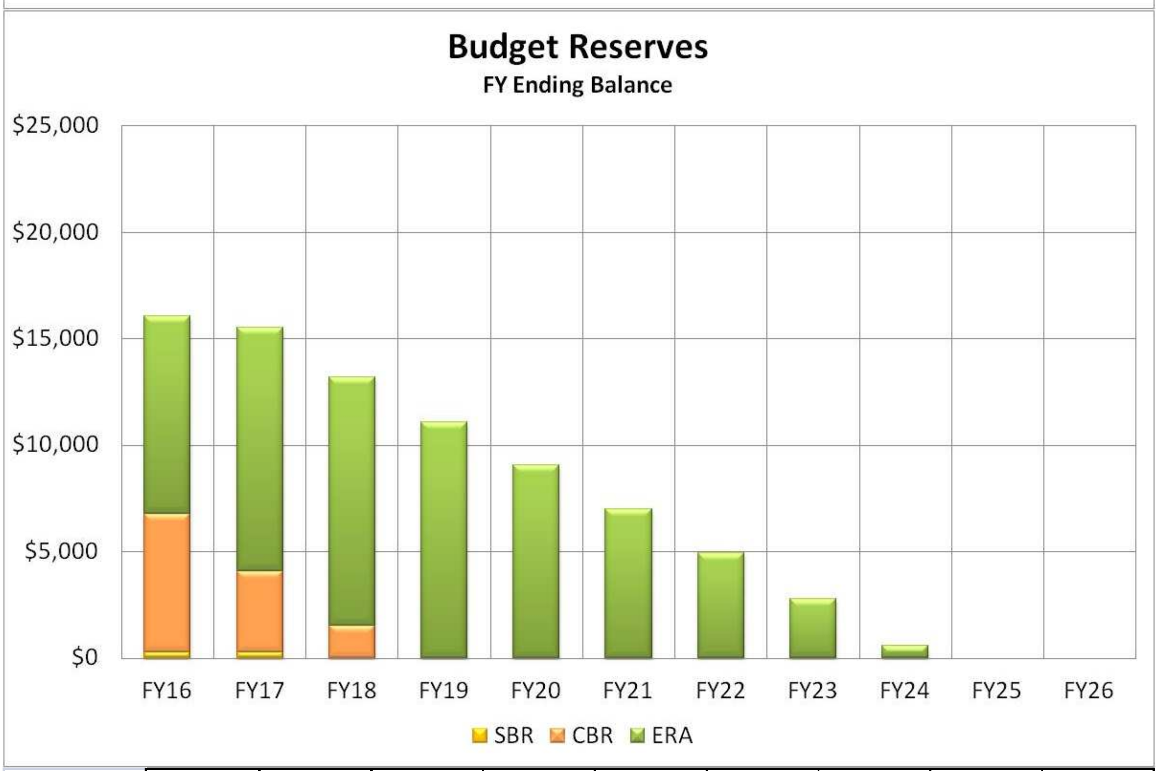
Given the fact that the Governor's budget/plan does not close the deficit, a key question remains: "How does the Governor's budget/plan affect Alaska's fiscal future—what happens to reserve balances and dividends?" Figures 3 and 4 can help answer this question. The two figures are generated by a model created by the Legislative Finance Division.

Figure 3 is a "business as usual" scenario. It assumes that

1. expenditures follow a "no growth" scenario,
2. traditional sources of revenue remain the only sources of revenue,
3. Permanent Fund earnings are used directly for dividends and inflation proofing, and
4. deficits are filled from the CBR until it is depleted, and are then filled from the ERA.

Figure 3: A "Business as Usual" Scenario





	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reserves	13,191	11,076	9,062	6,982	4,922	2,784	591	0	0
Deficit	-2,758	-2,709	-2,663	-2,635	-2,574	-2,559	-2,527	-2,441	-2,403
Years to Exhaust	5	4	3	3	2	1	0	0	0

Takeaway points from Figure 3:

1. The CBR is exhausted by FY19.
2. The ERA is exhausted by FY25.
3. The scenario is not sustainable—beginning in FY25
    a. Permanent Fund earnings are insufficient to continue dividends and inflation proofing, and
    b. deficits cannot be filled from reserves.

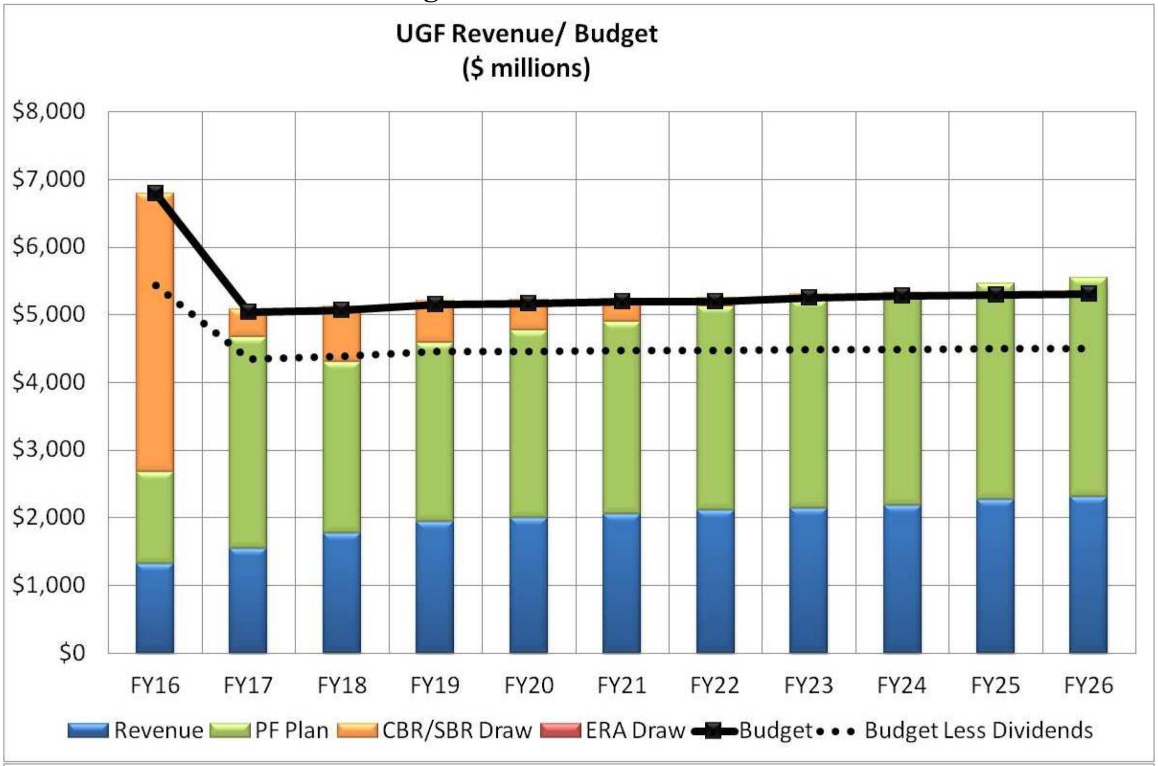
Figure 4 provides projections under the Governor's plan. It assumes that:

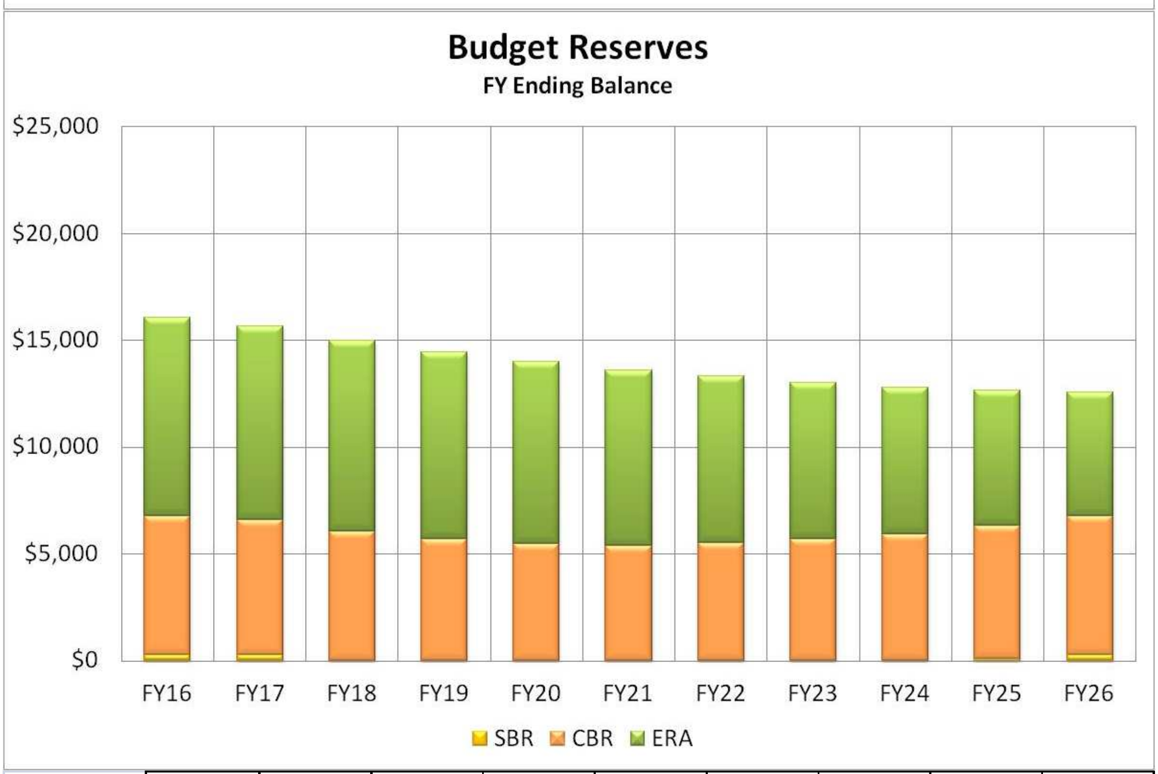
1. Expenditures follow a "no growth" scenario.
2. Traditional sources of revenue are supplemented by
    a. an annual POMV payout equal to 5.25% of prior balances of the Permanent Fund,
    b. additional royalty revenue that otherwise would be going to the Permanent Fund, and
    c. an increase to the motor fuel tax.
3. Permanent Fund earnings are no longer directly used for dividends or inflation proofing; earnings are used only for annual deposits to the general fund.
4. Dividends are
    a. based on Permanent Fund balances and on royalty income,
    b. paid from the general fund, and
    c. are roughly half of the amounts under a "business as usual" scenario.
5. Deficits are filled from the CBR. If that fund is depleted, deficits are filled from the ERA.

Takeaway points from Figure 4:

1. If expenditures—including dividends of about $1,000 per capita—remain as shown in Figure 4, budget surpluses are projected after FY24.
2. The CBR balance remains above $5 billion.
3. Total reserve balances decline slowly but remain above $12 billion.
4. The plan does not include an income or other broad-based tax, revenue from which could permit higher expenditures (including higher dividends) or increases to reserve balances.

Figure 4: Governor's Plan





	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Reserves	14,979	14,444	13,992	13,607	13,310	13,022	12,784	12,651	12,582
Deficit	-832	-631	-458	-345	-130	-93	-21	104	191
Years to Exhaust	18	23	31	39	102	140	599	*	*

Further Analysis

The model—which is available to legislators—allows evaluation of spending and revenue options under various assumptions. The model can be used to project long-term impacts of FY18 (and later) budget actions.

For those whose focus is on FY18, the fiscal summary (on page 10) provides a concise statement (and comparison) of projected revenue, appropriations and the size of the anticipated deficit. It has the limitation of being short on explanation.

Some legislators will undoubtedly be disappointed to see that proposed UGF expenditures are less than $50 million below the FY17 budget. Those that hope to end the session with a larger reduction will be disappointed to discover several items that may tend to push the FY18 UGF budget higher than proposed. These include:

Failure to Increase Motor Fuel Tax Rates	$70	million
UGF for Community Assistance	$30	million
UGF for Retirement Assistance	$58	million
UA and DEED capital projects	$21	million
Total	$180	million

Filling the holes listed above would increase the deficit from about $840 million to about $1 billion.

This *Overview* contains more detailed discussions of the proposed FY18 budget:

- Agency summaries (operating budget on pages 22 & 23 and capital budget beginning on page 83) provide a quick comparison of the Governor's proposed budget with FY17 spending.
- Narratives on individual agency operating budgets begin on page 94.
- Language sections of both operating and capital bills (with analysis) begin on pages 25 and 84, respectively.

"Subcommittee Books" and detailed agency binders are available in the Finance Committee rooms.

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State of Alaska Fiscal Summary--FY17 and FY18 (Part 1)

($ millions)

#		FY17 Management Plan						FY18 Governor						Change in UGF	
		Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	$	%
1	**REVENUE**	**4,570.1**	**989.9**	**5,560.0**	**770.9**	**3,545.0**	**9,875.9**	**4,228.6**	**990.1**	**5,218.7**	**680.6**	**3,442.3**	**9,341.5**	**(341.6)**	**-7.5%**
2	Unrestricted General Fund Revenue (Fall 2016) **(1)**	**1,446.7**	-	**1,446.7**	-	-	**1,446.7**	**1,624.1**	-	**1,624.1**	-	-	**1,624.1**		
3	Permanent Fund Protection Act POMV Draw **(2)**	2,385.8	-	2,385.8	-	-	2,385.8	2,525.7	-	2,525.7	-	-	2,525.7		
4	FY17 ERA Draw for Permanent Fund Dividend **(2)**	695.7	-	695.7	-	-	695.7	-	-	-	-	-	-		
5	Additional Royalties from Permanent Fund **(2)**	-	-	-	-	-	-	54.9	-	-	-	-	-		
6	Transfer from ERA for Amerada Hess Settlement **(2)**	23.0	-	-	-	-	-	26.0	-	-	-	-			
7	Motor Fuel Tax Legislation Adjustment **(3)**	-	-	-	-	-	-	(35.6)	71.1	35.6	4.6	-	40.2		
8	REAA Fund Lapse **(4)**	-	-	-	-	-		33.4	-	33.4	-	-	33.4		
9	Carryforward, Repeals, and Adjustments **(5)**	19.0	-	19.0	-	3.6	22.7	-	-	-	-	-	-		
10	Designated General Fund Revenue **(6)**	-	989.9	989.9	-	-	989.9	-	919.0	919.0	-	-	919.0		
	APPROPRIATIONS														
11	**TOTAL OPERATING APPROPRIATIONS**	**4,245.6**	**938.9**	**5,184.5**	**685.9**	**2,219.8**	**8,090.1**	**4,176.4**	**945.0**	**5,121.4**	**624.8**	**2,234.4**	**7,980.6**	**(69.2)**	**-1.6%**
12	**Agency Operations**	**3,878.3**	**817.1**	**4,695.3**	**592.8**	**2,190.9**	**7,479.0**	**3,756.7**	**868.0**	**4,624.7**	**573.6**	**2,206.7**	**7,405.0**	**(121.5)**	**-3.1%**
13	**Current Fiscal Year Appropriations**	3,878.3	817.1	4,695.3	592.8	2,190.9	7,479.0	3,756.7	868.0	4,624.7	573.6	2,206.7	7,405.0	(121.5)	-3.1%
14	Agency Operations (Non-Formula)	1,899.0	758.7	2,657.7	564.0	913.7	4,135.4	1,840.7	745.4	2,586.1	542.4	912.3	4,040.8	(58.3)	-3.1%
15	K-12 Foundation Formula and Pupil Transportation	1,243.0	-	1,243.0	23.7	20.8	1,287.4	1,249.1	-	1,249.1	20.0	20.8	1,289.9	6.1	0.5%
16	Medicaid Services (Formula)	580.2	0.4	580.6	5.2	1,143.3	1,729.1	603.5	1.8	605.3	4.8	1,125.3	1,735.3	23.4	4.0%
17	Other Formula Programs	156.2	58.0	214.1	-	107.9	322.0	131.6	54.4	186.0	1.9	148.4	336.2	(24.6)	-15.7%
18	Revised Programs Legislatively Approved	-	-	-	-	5.1	5.1	-	-	-	-	-	-	-	
19	Fiscal Notes (FY17 notes are included in MP) **(7)**	-	-	-	-	-	-	(68.2)	66.4	(1.8)	4.5	-	2.7	(68.2)	
20	*Duplicated Authorization (non-additive)* ***(8)***	-	-	-	*793.9*	-	*793.9*	-	-	-	*790.6*	-	*790.6*	-	
21	**Statewide Items**	**367.3**	**121.8**	**489.1**	**93.1**	**28.9**	**611.1**	**419.7**	**77.0**	**496.7**	**51.3**	**27.6**	**575.6**	**52.4**	**14.3%**
22	**Current Fiscal Year Appropriations**	367.3	121.8	489.1	90.1	28.9	608.1	419.7	77.0	496.7	51.3	27.6	575.6	52.4	14.3%
23	Debt Service	182.2	18.3	200.5	84.7	5.2	290.5	209.4	18.6	228.0	45.0	5.2	278.3	27.2	14.9%
24	Fund Capitalization	**46.4**	**13.7**	**60.1**	**5.3**	**23.6**	**89.1**	**76.0**	**0.1**	**76.1**	**6.2**	**22.4**	**104.8**	29.6	63.7%
25	*Community Assistance*	-	*13.6*	*13.6*	-	-	*13.6*	-	-	-	-	-	-	-	
26	*Oil & Gas Production Tax Credits*	*30.0*	-	*30.0*	-	-	*30.0*	*74.0*	-	*74.0*	-	-	*74.0*	*44.0*	*146.7%*
27	*Other Fund Capitalization*	*16.4*	*0.1*	*16.6*	*5.3*	*23.4*	*45.3*	*2.0*	*0.1*	*2.1*	*6.2*	*22.4*	*30.8*	*(14.4)*	*-87.8%*
28	Retirement Costs: Actuarial Recommendation	134.2	89.8	224.1	-	-	224.1	134.2	58.3	192.5	-	-	192.5	(0.0)	0.0%
29	Judgments, Claims and Settlements	4.4	-	4.4	-	-	4.4	-	-	-	-	-	-	(4.4)	-100.0%
30	*Duplicated Authorization (non-additive)* ***(8)***	-	-	-	*13.6*	-	*13.6*	-	-	-	*14.2*	-	*14.2*	-	
31	**Supplemental Appropriations (Statewide)**	-	-	-	3.0	-	3.0	-	-	-	-	-	-	-	
32	*Cost of Issuing Debt (duplicated)*	-	-	-	*3.0*	-	*3.0*	-	-	-	-	-	-	-	
33	**TOTAL CAPITAL APPROPRIATIONS**	**96.1**	**11.7**	**107.8**	**85.0**	**1,325.2**	**1,518.1**	**115.2**	**31.5**	**146.7**	**55.8**	**1,207.9**	**1,410.4**	**19.1**	**19.9%**
34	**Current Fiscal Year Appropriations**	96.1	11.5	107.6	85.0	1,325.2	1,517.8	115.2	31.5	146.7	55.8	1,207.9	1,410.4	19.1	19.9%
35	Project Appropriations & RPLs (Revised Programs)	96.1	11.5	107.6	85.0	1,325.2	1,517.8	120.0	26.7	146.7	55.8	1,207.9	1,410.4	23.9	24.8%
36	Fiscal Notes	-	-	-	-	-	-	(4.8)	4.8	-	-	-	-	-	
37	*Duplicated Authorization (non-additive)* ***(8)***	-	-	-	*64.5*	-	*64.5*	-	-	-	*19.2*	-	*19.2*	-	
38	**Supplemental Appropriations (Capital)**	-	0.3	0.3	-	-	0.3	-	-	-	-	-	-	-	
39	*Money on the Street (includes all fund sources)* ***(9)***	*96.1*	*11.7*	*107.8*	*149.5*	*1,325.2*	*1,582.6*	*115.2*	*31.5*	*146.7*	*75.0*	*1,207.9*	*1,429.6*	*19.1*	*19.9%*
40	**Pre-Permanent Fund Authorization** (unduplicated)	**4,341.7**	**950.6**	**5,292.3**	**770.9**	**3,545.0**	**9,608.2**	**4,291.7**	**976.5**	**5,268.1**	**680.6**	**3,442.3**	**9,391.0**	**(50.1)**	**-1.2%**
41	***Fiscal Deficit without Permanent Fund Legislation (10)***	*(2,876.0)*	*Revenue Covers*		*33.8%*	*of Appropriations*		*(2,669.7)*	*Revenue Covers*		*37.8%*	*of Appropriations*			
42	**Permanent Fund Earnings Reserve**	**718.7**	**-**	**718.7**	**-**	**-**	**718.7**	**721.7**	**-**	**721.7**	**-**	**-**	**721.7**	**3.0**	**0.4%**
43	Permanent Fund Dividends **(2)**	695.7	-	695.7	-	-	695.7	695.7	-	695.7	-	-	695.7	-	0.0%
44	Deposits to Principal (Inflation Proofing)	-	-	-	-	-	-	-	-	-	-	-	-		
45	Alaska Capital Income Fund **(2)**	23.0	-	23.0	-	-	23.0	26.0	-	26.0	-	-	26.0	3.0	13.0%
46	**Pre-Transfers Authorization** (unduplicated)	**5,060.4**	**950.6**	**6,011.0**	**770.9**	**3,545.0**	**10,326.8**	**5,013.3**	**976.5**	**5,989.8**	**680.6**	**3,442.3**	**10,112.6**	**(47.1)**	**-0.9%**
47	***Pre-Transfer Balance to/(from) the SBR or CBR***	*(490.2)*	*Revenue Covers*		*90.3%*	*of Appropriations*		*(784.7)*	*Revenue Covers*		*84.3%*	*of Appropriations*			

State of Alaska Fiscal Summary--FY17 and FY18 (Part 1)

($ millions)

		FY17 Management Plan						FY18 Governor						Change in UGF	
		Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	Unrestricted General Funds	Designated General Funds	Total General Funds	Other State Funds	Federal Receipts	All Funds	$	%
														January 9, 2017	
48	**Fund Transfers (11)**	**46.8**	**39.3**	**86.1**	**-**	**-**	**86.1**	**56.1**	**13.7**	**69.8**	**-**	**-**	**69.8**	**9.3**	**19.9%**
49	**Current Fiscal Year Transfers**	**46.8**	**39.3**	**86.1**	**-**	**-**	**86.1**	**56.1**	**13.7**	**69.8**	**-**	**-**	**69.8**	**9.3**	**19.9%**
50	Oil & Hazardous Substance Fund	15.6	7.2	22.8	-	-	22.8	15.5	2.2	17.7	-	-	17.7	(0.1)	-0.5%
51	REAA School Fund	31.2	-	31.2	-	-	31.2	40.6	-	40.6	-	-	40.6	9.4	30.1%
52	Vaccine Assessment Account	-	31.2	31.2	-	-	31.2	-	10.5	10.5	-	-	10.5	-	
53	Other Funds	-	0.9	0.9	-	-	0.9	-	1.0	1.0	-	-	1.0	-	
54	**Post-Transfers Authorization** (unduplicated)	**5,107.2**	**989.9**	**6,097.1**	**770.9**	**3,545.0**	**10,412.9**	**5,069.4**	**990.1**	**6,059.6**	**680.6**	**3,442.3**	**10,182.4**	**(37.7)**	**-0.7%**
55	*Post-Transfer Balance to/(from) the SBR or CBR*	*(537.0)*		*Revenue Covers*	*89.5%*	*of Appropriations*		*(840.9)*		*Revenue Covers*	*83.4%*	*of Appropriations*			
	FISCAL YEAR SUMMARY	**5,107.2**	**989.9**	**6,097.1**	**770.9**	**3,545.0**	**10,412.9**	**5,069.4**	**990.1**	**6,059.6**	**680.6**	**3,442.3**	**10,182.4**	**(37.7)**	**-0.7%**
	Agency Operations	3,878.3	817.1	4,695.3	592.8	2,190.9	7,479.0	3,756.7	868.0	4,624.7	573.6	2,206.7	7,405.0	(121.5)	-3.1%
	Statewide Items	367.3	121.8	489.1	93.1	28.9	611.1	419.7	77.0	496.7	51.3	27.6	575.6	52.4	14.3%
	Permanent Fund Earnings Reserve	718.7	0.0	718.7	0.0	0.0	718.7	721.7	0.0	721.7	0.0	0.0	721.7	3.0	0.4%
	Total Operating	**4,964.2**	**938.9**	**5,903.1**	**685.9**	**2,219.8**	**8,808.8**	**4,898.1**	**945.0**	**5,843.0**	**624.8**	**2,234.4**	**8,702.2**	**(66.2)**	**-1.3%**
	Capital	**96.1**	**11.7**	**107.8**	**85.0**	**1,325.2**	**1,518.1**	**115.2**	**31.5**	**146.7**	**55.8**	**1,207.9**	**1,410.4**	**19.1**	**19.9%**
	Transfers	***46.8***	***39.3***	***86.1***	**-**	**-**	***86.1***	***56.1***	***13.7***	***69.8***	**-**	**-**	***69.8***	***9.3***	***19.9%***

January 9, 2017

Notes:

(1) The Department of Revenue's Fall 2016 oil forecast for FY17 is 0.506 mbd at $46.81 per barrel; the FY18 forecast is 0.470 mbd at $54.00 per barrel.

(2) Under the proposed Permanent Fund Protection Act, $2.4 billion is available for transfer from the Earnings Reserve Account to the general fund in FY17 and $2.5 billion is available for FY18. The transfer amounts in this section reflect the Legislative Finance Division's calculations based on the bill's text. The FY17 dividend was already paid out of the ERA (reflected on Line 4), but FY18 money for dividends is included in the POMV draw. The FY17 POMV draw could be reduced by the amount paid for dividends, but the Governor's budget includes the full draw. Permanent Fund Dividends will be reclassified as UGF expenditures for both years, as seen in Line 43. The transfers to the Capital Income Fund due to the Amerada Hess settlement are also reclassified as UGF. In addition, royalties to the Permanent Fund would be reduced to 25% in FY18.

(3) The Governor's budget submission includes legislation to double the Motor Fuel Tax and convert the UGF portion of the tax into Designated General Funds. Thus, UGF revenue decreases by $35.6 but DGF revenue increases by $71.1.

(4) By statute, any balance in the REAA fund beyond $70 million will lapse to the general fund. The Governor's budget would bring the balance to $103.4 million, so $33.4 million would lapse to the general fund at the end of FY18.

(5) Carryforward is money that was appropriated in a prior year that is made available for spending in a later year via multiyear appropriations. Repeals increase revenue by reducing prior year authorization. Total carryforward into FY18 will be unknown until the close of FY17.

(6) Designated general funds include 1) program receipts that are restricted to the program that generates the receipts and 2) revenue that is statutorily designated for a specific purpose.

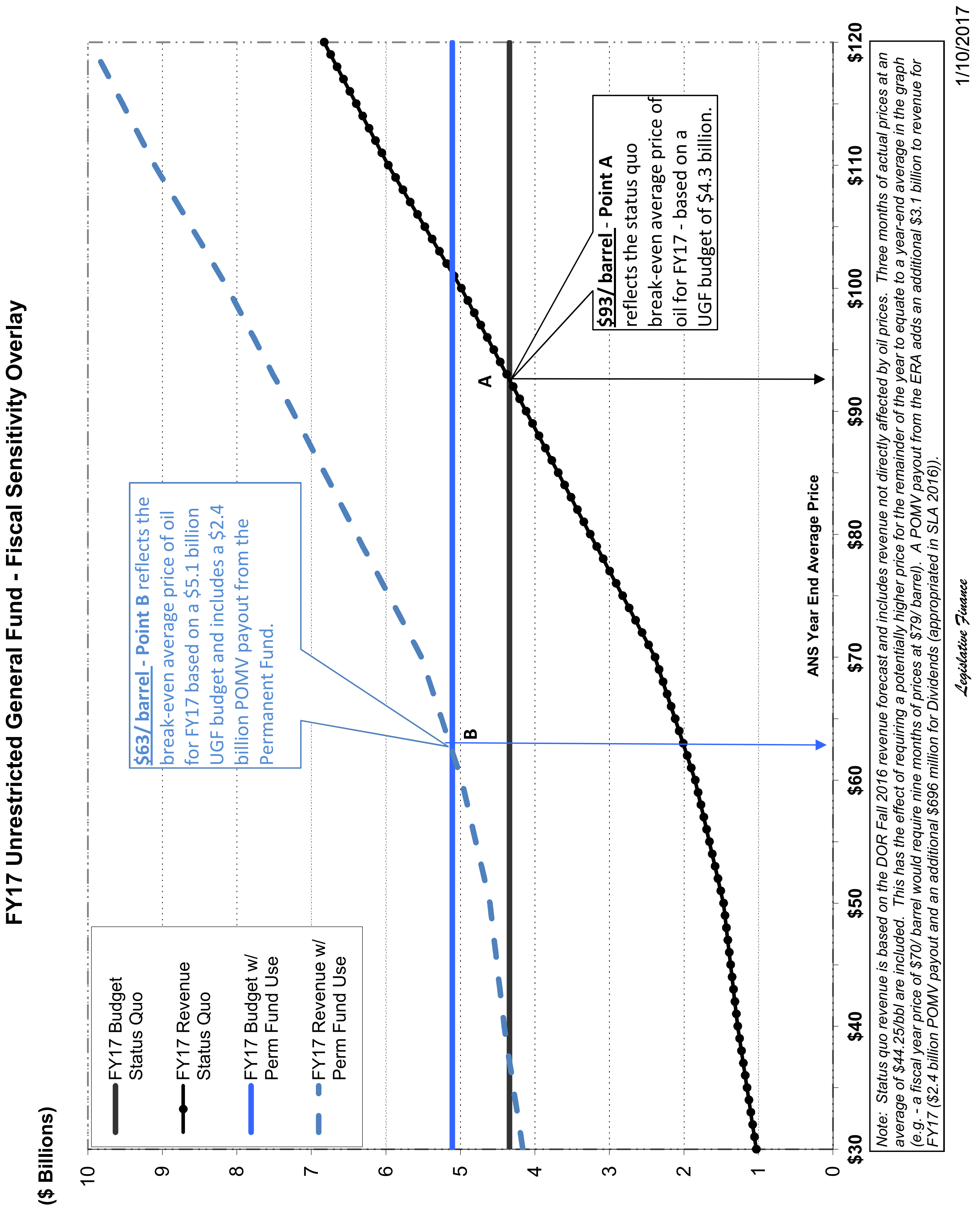
(7) The Governor's budget includes two fiscal notes: one for the motor fuel tax (see note 3), and one for a yet-to-be-introduced bill relating to employee salaries. While bills that have not been introduced normally would not be in a budget submission, the effect of the proposed bill appears to be possible to obtain through administrative action without legislation.

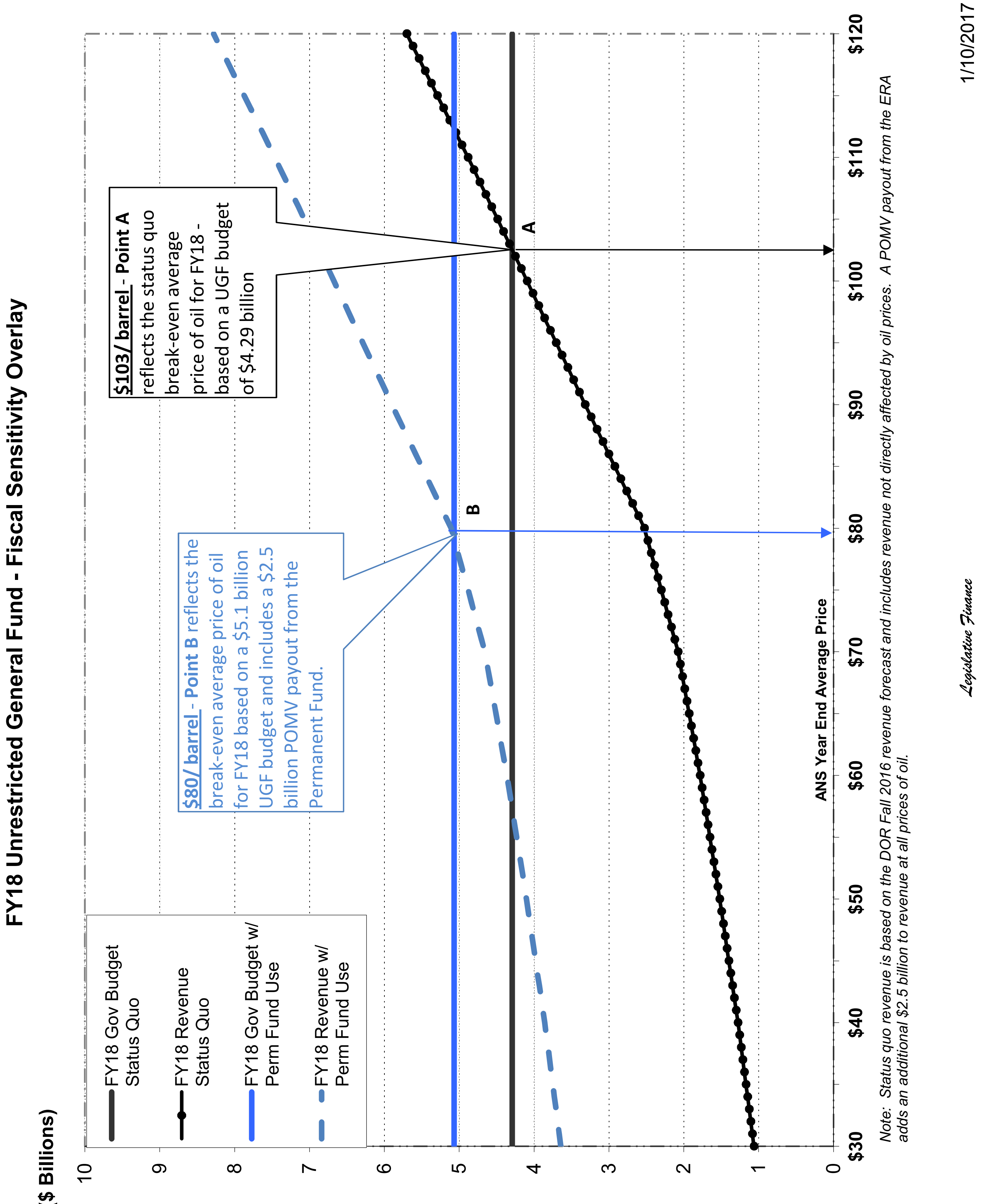
(8) Duplicated authorization is in the budget twice, such as when funds flow in and out of a holding account or one agency pays another for services provided. Duplicated authorization also includes the expenditure of bond proceeds when debt service on bonds (which includes repayment of principal) will be reflected in future operating budgets.

(9) Including duplicated fund sources in the amount of capital spending provides a valuable measure of "money on the street" because it includes projects funded with bond proceeds and other duplicated fund sources.

(10) This line shows what the deficit would be under the Governor's budget without the Permanent Fund Protection Act and associated draws (Lines 3-5).

(11) "Fund Transfers" refer to appropriations that move money from one fund to another within the Treasury. Although transfers are not true expenditures, they reduce the amount of money available for other purposes so must be included in the calculation of the surplus/deficit. For reserve accounts, a positive number indicates a deposit and a negative number indicates a withdrawal. When money is withdrawn and spent, the expenditure is included in the operating or capital budget, as appropriate.


FY17 Unrestricted General Fund - Fiscal Sensitivity Overlay
($ Billions)
10
9
8
7
6
5
4
3
2
1
0
$30
$40
$50
$60
$70
$80
$90
$100
$110
$120
ANS Year End Average Price
FY17 Budget Status Quo
FY17 Revenue Status Quo
FY17 Budget w/ Perm Fund Use
FY17 Revenue w/ Perm Fund Use
A
B
$63/ barrel - Point B reflects the break-even average price of oil for FY17 based on a $5.1 billion UGF budget and includes a $2.4 billion POMV payout from the Permanent Fund.
$93/ barrel - Point A reflects the status quo break-even average price of oil for FY17 - based on a UGF budget of $4.3 billion.
Note: Status quo revenue is based on the DOR Fall 2016 revenue forecast and includes revenue not directly affected by oil prices. Three months of actual prices at an average of $44.25/bbl are included. This has the effect of requiring a potentially higher price for the remainder of the year to equate to a year-end average in the graph (e.g. - a fiscal year price of $70/ barrel would require nine months of prices at $79/ barrel). A POMV payout from the ERA adds an additional $3.1 billion to revenue for FY17 ($2.4 billion POMV payout and an additional $696 million for Dividends (appropriated in SLA 2016)).
Legislative Finance
1/10/2017


FY18 Unrestricted General Fund - Fiscal Sensitivity Overlay
($ Billions)
FY18 Gov Budget Status Quo
FY18 Revenue Status Quo
FY18 Gov Budget w/ Perm Fund Use
FY18 Revenue w/ Perm Fund Use
$103/ barrel - Point A reflects the status quo break-even average price of oil for FY18 - based on a UGF budget of $4.29 billion
$80/ barrel - Point B reflects the break-even average price of oil for FY18 based on a $5.1 billion UGF budget and includes a $2.5 billion POMV payout from the Permanent Fund.
A
B
0
1
2
3
4
5
6
7
8
9
10
$30
$40
$50
$60
$70
$80
$90
$100
$110
$120
ANS Year End Average Price
Note: Status quo revenue is based on the DOR Fall 2016 revenue forecast and includes revenue not directly affected by oil prices. A POMV payout from the ERA adds an additional $2.5 billion to revenue at all prices of oil.
1/10/2017
Legislative Finance

State of Alaska Fiscal Summary-- FY17 and FY18 (Part 2)

($ millions)

Approximate Balances of Reserve Accounts

	FY17				FY18			
	BoY Balance	In	Out	EoY Balance	BoY Balance	In	Out	EoY Balance
Permanent Fund Principal -- Market Value (no appropriations allowed)	**44,163.0**	**834.0**	**0.0**	**44,997.0**	**44,997.0**	**505.1**	**0.0**	**45,502.1**
Undesignated Reserves	**16,911.6**	**3,320.9**	**3,641.5**	**16,591.0**	**16,591.0**	**3,599.4**	**3,392.6**	**16,797.8**
Total Excluding Permanent Fund	**7,646.5**	**449.9**	**537.0**	**7,559.3**	**7,559.3**	**151.4**	**840.9**	**6,869.8**
Constitutional Budget Reserve Fund (cash) **(1)**	7,331.4	449.9	537.0	7,244.3	7,244.3	151.4	840.9	6,554.8
Statutory Budget Reserve Fund **(1)**	288.0	-	-	288.0	288.0	-	-	288.0
Alaska Housing Capital Corporation Fund **(1)**	27.1	-	-	27.1	27.1	-	-	27.1
Permanent Fund Earnings Reserve Account	**9,265.1**	**2,871.0**	**3,104.5**	**9,031.6**	**9,031.6**	**3,448.0**	**2,551.7**	**9,928.0**
Designated Reserves	**1,500.5**	**1,367.2**	**1,484.2**	**1,383.6**	**1,383.6**	**1,344.5**	**1,414.7**	**1,313.4**
Alaska Capital Income Fund	**(0.5)**	31.0	33.0	**(2.5)**	**(2.5)**	26.0	21.2	**2.3**
Alaska Higher Education Investment Fund	**439.5**	22.9	113.0	**349.3**	**349.3**	18.7	81.9	**286.1**
Revenue Sharing Fund	**114.7**	13.6	38.2	**90.0**	**90.0**	-	30.0	**60.0**
Power Cost Equalization Endowment	**946.9**	56.8	57.0	**946.8**	**946.8**	56.8	38.6	**965.0**
Reserves (Excluding Permanent Fund Principal)	**18,412.1**	**4,688.1**	**5,125.7**	**17,974.5**	**17,974.5**	**4,943.9**	**4,807.2**	**18,111.2**
Unrestricted General Fund Appropriations				5,107.2				5,069.4
Years of Reserves (Reserves/UGF Appropriations)				3.52				3.57

(1) CBR, SBR and AHCC balances are estimated. The Alaska Comprehensive Annual Financial Report, which has final numbers for FY16, was not available at publication.

Operating Budget

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Operating Budget Overview

The operating budget is now broken into three expenditure categories: Agency Operations, Statewide Items, and a new category called Permanent Fund ERA Appropriations.

- **Agency Operations** can be described as the cost of "day-to-day operations" of state government and are generally what people think of when looking at government expenditures.
- **Statewide Items** are operating costs not attributable to any particular agency, such as debt service and state assistance to retirement.
- **Permanent Fund Earnings Reserve Account (ERA) Appropriations** highlight appropriations from the ERA for dividends, inflation proofing, the Capital Income Fund, and last, but certainly not least, to the General Fund.

Legislative Fiscal Analyst Comment: Because the Governor's FY18 budget is based on using $1.8 billion from the ERA to fill a large portion of the FY18 budget deficit, Legislative Finance Division made the following changes:

- Reclassified ERA funding from Designated General Funds (DGF) to Unrestricted General Funds (UGF).
- Created a separate category for "Permanent Fund Earnings Reserve Account Appropriations" in order to provide reports that reflect appropriations of Permanent Fund earnings.

The Governor's FY18 general fund operating budget is $60.1 million (1%) below the FY17 Management Plan. Because FY15 was the peak spending year for Agency Operations, the table below – and the Subcommittee books – make comparisons between FY15 Management Plan and the FY18 Governor's request. Details on significant operating budget changes are discussed later in this section and in individual agency narratives. The tables below highlight General Fund appropriations (which include UGF and DGF appropriations).

General Fund Operating Budget Appropriations*
(Includes UGF and DGF)
($ millions)

Budget Category	FY15MgtPln	FY17MgtPln	18Gov	FY15-FY18		FY17-FY18	
Agency Operations	5,207.4	4,695.3	4,624.7	(582.7)	-11.2%	(70.6)	-1.5%
Statewide Items	942.1	489.1	496.7	(445.4)	-47.3%	7.6	1.5%
Permanent Fund ERA	1,987.0	718.7	721.7	(1,265.4)	-63.7%	3.0	0.4%
TOTAL	8,136.5	5,903.1	5,843.0	(2,293.5)	-28.2%	(60.1)	-1.0%

*Does not include Fund Transfers (which are non-additive).

Unrestricted General Fund Operating Budget Appropriations* ($ millions)							
Budget Category	FY15MgtPln	FY17MgtPln	18Gov	FY15-FY18		FY17-FY18	
Agency Operations	4,500.2	3,878.3	3,756.7	(743.5)	-16.5%	(121.5)	-3.1%
Statewide Items	922.7	367.3	419.7	(503.1)	-54.5%	52.4	14.3%
Permanent Fund ERA	1,987.0	718.7	721.7	(1,265.4)	-63.7%	3.0	0.4%
TOTAL	7,410.0	4,964.2	4,898.1	(2,511.9)	-33.9%	(66.2)	-1.3%
*Does not include Fund Transfers (which are non-additive).							

AGENCY OPERATING BUDGETS

When adjusted for inflation and population, the FY18 Governor's Agency Operations budget request is less than FY06.

The Governor's budget request includes two items the legislature will want to be aware of:

(1) the consolidation of a variety of shared administrative and information technology services; and

(2) fund changes from UGF to reflect increased revenue generated by increases in motor fuel taxes.

These two changes are highlighted below.

Shared Administrative and Information Technology Services Initiatives

The current budget situation spurred OMB and the departments to identify ways of providing needed services while reducing expenditures. As part of a solution, the Executive Branch decided on a phased consolidation of:

(1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts, and centralized mail and print services; and

(2) information technology services.

The implementation will begin in the second half of FY17, but the FY18 budget reflects the first phase of consolidations. Although positions are being transferred to the Department of Administration (DOA), other than an identified savings of 10 percent, budgeted funding will remain in the departments to fund Reimbursable Services Agreements (RSAs) with DOA.

- **Shared Services of Alaska (SSoA).** A number of services (other than IT services) shared by all departments will be consolidated under a new "Shared Services of Alaska" (SSoA) appropriation. The mission of SSoA is to provide support for common administrative transactions more efficiently and at a lower cost so agencies can focus on activities that further their core missions. A phased approach transferring services from individual departments to SSoA will occur over several years and savings will continue to be reflected in the budgets as services are transferred.

FY18 Savings. While future savings are anticipated as consolidation continues, departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget (which is 10% of the cost of the transferred positions).

- **Office of Information Technology (OIT)**. A new centralized Office of Information Technology (OIT) Division has been created in the Department of Administration and a total of 68 positions (66 PFT positions) have been transferred from other departments to OIT. The Chief Information Officer (CIO) will be responsible for all technology-related strategies and operations for the executive branch and the realignment is expected to decrease costs by leveraging the purchasing power of the State as a single organization. This is the first phase of the implementation--the realignment of IT staff is expected to continue through FY18 and into FY19.

  FY18 Savings. While future savings are anticipated as the realignment continues, the FY18 budget does not identify savings resulting from the IT consolidation.

Changes in Motor Fuel Taxes

As occurred in the 2016 session, the Governor submitted legislation to increase the current motor fuel taxes as follows:

- the gasoline tax would increase from 8 to 16 cents per gallon, and then to 24 cents in FY19;
- the marine fuel tax would increase from 5 to 10 cents per gallon and then to 15 cents in FY19; and
- aviation fuel and gasoline taxes will increase.

Discussion of this increase is included in the Department of Transportation and Public Facilities (DOT&PF) agency narrative in this publication.

The bill creates a Transportation Maintenance Fund which would house the tax “receiving” accounts for highway fuel, and marine fuel taxes (these accounts currently reside in the General Fund). The new fund would be ***designated*** for “direct capital, operating, or maintenance costs of highways and highway infrastructure, construction of highway projects and ferries…”

The Governor’s operating budget replaces a total of $66.35 million UGF with funds from the Transportation Maintenance Fund, adds another $4.75 million in the capital budget, and reclassifies the funding as DGF. The bulk of the funding ($64.8 million) is appropriated to DOT&PF, but some of this funding is also appropriated to the Departments of Public Safety and Commerce, Community & Economic Development. The narratives for each of these agencies discuss these changes in more detail.

STATEWIDE ITEMS

Statewide Items increased by $52.4 million (14.3%) between FY17 Management Plan and the FY18 Governor’s request. The most significant increases are:

- **Oil and Gas Tax Credits: $44 million UGF.** The Governor’s FY18 budget request increases funding for the Oil and Gas Tax Credits by 147% (from $30 million to $74 million), which reflects the minimum deposit required under AS 43.55.028 when the oil price forecast is less than $60 per barrel. For more information, please see the comments under section 21(p) in the “Language Sections of the Governor’s FY18 Operating Budget” section in this publication.

- **Debt Service – School Debt Reimbursement: $27.2 million UGF.** The Governor’s FY18 budget appropriates the projected need for full reimbursement of local government school debt. AS 14.11.100 authorizes the State to reimburse municipalities for selected bonds issued for school construction (from 60-90% of principal and interest depending on the authorization). The General Fund cost is about $6.3 million below the FY17 pre-veto cost. The Governor vetoed $30.5 million from the FY17 appropriation.

PERMANENT FUND EARNINGS RESERVE ACCOUNT APPROPRIATIONS

- **ERA Appropriations to the Capital Income Fund: Increase of $3 million UGF to a total of $26 million.**
- **Permanent Fund Dividends Fund Change.** Instead of paying Permanent Fund Dividends (PFDs) from the PF Earnings Reserve (as has occurred in the past), the Governor’s FY18 budget appropriates funding to pay $1,000 PFDs from the *unrestricted general fund*. For more information, please see the comments under section 7(b) in the “Language Sections of the Governor’s FY18 Operating Budget” section in this publication.

Agency Summary - FY18 Operating Budget - Total Funds

Agency Operations	15MgtPlan	16Actual	17MgtPln	18AdjBase	18Gov	15MgtPln to 18Gov		17MgtPln to 18Gov		18Adj Base to 18Gov	
Administration	346,217.6	309,454.5	332,392.8	329,192.4	336,453.6	(9,764.0)	-2.8%	4,060.8	1.2%	7,261.2	2.2%
Commerce, Community & Econ Dev	215,332.4	173,029.7	232,380.1	175,052.9	227,802.8	12,470.4	5.8%	(4,577.3)	-2.0%	52,749.9	30.1%
Corrections	333,040.5	309,939.0	315,917.4	309,193.9	309,026.6	(24,013.9)	-7.2%	(6,890.8)	-2.2%	(167.3)	-0.1%
Education & Early Dev	1,698,061.9	1,583,896.3	1,620,559.1	1,620,632.2	1,621,976.2	(76,085.7)	-4.5%	1,417.1	0.1%	1,344.0	0.1%
Environmental Conservation	87,560.9	76,053.3	83,419.2	83,887.9	81,888.2	(5,672.7)	-6.5%	(1,531.0)	-1.8%	(1,999.7)	-2.4%
Fish and Game	215,272.6	180,681.8	203,720.2	205,016.7	200,162.5	(15,110.1)	-7.0%	(3,557.7)	-1.7%	(4,854.2)	-2.4%
Governor	34,338.1	22,519.0	28,963.5	27,930.0	26,026.1	(8,312.0)	-24.2%	(2,937.4)	-10.1%	(1,903.9)	-6.8%
Health & Social Services	2,692,324.5	2,653,051.9	2,735,831.9	2,706,818.8	2,724,939.1	32,614.6	1.2%	(10,892.8)	-0.4%	18,120.3	0.7%
Labor & Workforce Dev	185,306.7	146,796.6	163,802.4	164,389.2	162,095.3	(23,211.4)	-12.5%	(1,707.1)	-1.0%	(2,293.9)	-1.4%
Law	95,401.4	90,076.9	85,923.7	82,762.3	86,344.0	(9,057.4)	-9.5%	420.3	0.5%	3,581.7	4.3%
Military & Veterans' Affairs	59,709.8	46,761.2	57,287.5	57,564.9	57,775.8	(1,934.0)	-3.2%	488.3	0.9%	210.9	0.4%
Natural Resources	178,330.4	203,310.7	159,622.0	149,450.7	152,745.6	(25,584.8)	-14.3%	(6,876.4)	-4.3%	3,294.9	2.2%
Public Safety	206,581.4	177,072.2	189,373.4	190,356.0	190,655.1	(15,926.3)	-7.7%	1,281.7	0.7%	299.1	0.2%
Revenue	376,050.9	314,418.5	397,505.2	393,529.3	375,562.7	(488.2)	-0.1%	(21,942.5)	-5.5%	(17,966.6)	-4.6%
Transportation & Public Facilities	629,036.8	582,647.2	585,287.8	587,154.2	581,260.5	(47,776.3)	-7.6%	(4,027.3)	-0.7%	(5,893.7)	-1.0%
University of Alaska	924,863.7	834,269.9	899,796.1	899,744.7	887,711.1	(37,152.6)	-4.0%	(12,085.0)	-1.3%	(12,033.6)	-1.3%
Branch-wide Unallocated Approp	27,000.0	-	-	-	(1,817.9)	(28,817.9)	-106.7%	(1,817.9)		(1,817.9)	
Judiciary	115,676.9	112,759.3	110,439.2	112,041.3	108,364.5	(7,312.4)	-6.3%	(2,074.7)	-1.9%	(3,676.8)	-3.3%
Legislature	78,077.9	66,215.2	65,549.2	66,789.6	66,629.7	(11,448.2)	-14.7%	1,080.5	1.6%	(159.9)	-0.2%
Total	**8,498,184.4**	**7,882,953.2**	**8,267,770.7**	**8,161,507.0**	**8,195,601.5**	**(302,582.9)**	**-3.6%**	**(72,169.2)**	**-0.9%**	**34,094.5**	**0.4%**
Statewide Items											
Debt Service	305,790.6	278,283.0	290,480.4	287,013.4	287,809.5	(17,981.1)	-5.9%	(2,670.9)	-0.9%	796.1	0.3%
State Assistance to Retirement	3,008,017.0	265,021.8	224,070.9	224,070.9	192,526.6	(2,815,490.4)	-93.6%	(31,544.3)	-14.1%	(31,544.3)	-14.1%
Special Appropriations	13,366.8	6,633.3	4,417.0	-	-	(13,366.8)	-100.0%	(4,417.0)	-100.0%	-	
Fund Capitalization	715,387.6	693,232.4	93,957.4	65,715.4	109,468.4	(605,919.2)	-84.7%	15,511.0	16.5%	43,753.0	66.6%
Total	**4,042,562.0**	**1,243,170.5**	**612,925.7**	**576,799.7**	**589,804.5**	**(3,452,757.5)**	**-85.4%**	**(23,121.2)**	**-3.8%**	**13,004.8**	**2.3%**
Permanent Fund ERA											
PF ERA Appropriations	1,987,000.0	1,423,114.7	718,650.0	718,650.0	721,650.0	(1,265,350.0)	-63.7%	3,000.0	0.4%	3,000.0	0.4%
Total	**1,987,000.0**	**1,423,114.7**	**718,650.0**	**718,650.0**	**721,650.0**	**(1,265,350.0)**	**-63.7%**	**3,000.0**	**0.4%**	**3,000.0**	**0.4%**
Statewide Total	**14,527,746.4**	**10,549,238.4**	**9,599,346.4**	**9,456,956.7**	**9,507,056.0**	**(5,020,690.4)**	**-34.6%**	**(92,290.4)**	**-1.0%**	**50,099.3**	**0.5%**
Unrestricted General (UGF)	7,409,968.3	6,675,160.7	4,964,224.0	4,906,834.3	4,898,052.6	(2,511,915.7)	-33.9%	(66,171.4)	-1.3%	(8,781.7)	-0.2%
Designated General (DGF)	726,532.5	662,388.9	938,892.2	867,915.3	944,990.9	218,458.4	30.1%	6,098.7	0.6%	77,075.6	8.9%
Other State Funds (Other)	4,371,301.1	1,209,443.3	1,481,608.9	1,470,924.0	1,429,656.1	(2,941,645.0)	-67.3%	(51,952.8)	-3.5%	(41,267.9)	-2.8%
Federal Receipts (Fed)	2,019,944.5	2,002,245.5	2,214,621.3	2,211,283.1	2,234,356.4	214,411.9	10.6%	19,735.1	0.9%	23,073.3	1.0%
Fund Transfers	(2,909,478.1)	(56,034.5)	86,097.1	86,097.1	69,800.5	2,979,278.6	-102.4%	(16,296.6)	-18.9%	(16,296.6)	-18.9%

Agency Summary - FY18 Operating Budget - General Funds

Agency Operations	15MgtPlan	16Actual	17MgtPln	18AdjBase	18Gov	15MgtPln to 18Gov		17MgtPln to 18Gov		18Adj Base to 18Gov	
Administration	111,491.3	102,788.0	102,030.1	99,974.9	99,498.4	(11,992.9)	-10.8%	(2,531.7)	-2.5%	(476.5)	-0.5%
Commerce, Community & Econ Dev	124,631.3	97,417.9	154,581.3	97,121.9	148,984.8	24,353.5	19.5%	(5,596.5)	-3.6%	51,862.9	53.4%
Corrections	304,435.3	281,271.9	273,825.8	266,973.3	266,806.0	(37,629.3)	-12.4%	(7,019.8)	-2.6%	(167.3)	-0.1%
Education & Early Dev	1,427,366.5	1,323,605.0	1,316,412.0	1,316,233.6	1,323,197.9	(104,168.6)	-7.3%	6,785.9	0.5%	6,964.3	0.5%
Environmental Conservation	49,685.8	45,354.5	45,181.2	45,444.0	45,190.1	(4,495.7)	-9.0%	8.9	0.0%	(253.9)	-0.6%
Fish and Game	88,406.5	76,444.4	70,373.6	70,962.1	65,413.9	(22,992.6)	-26.0%	(4,959.7)	-7.0%	(5,548.2)	-7.8%
Governor	33,609.5	21,688.2	27,786.2	26,857.7	24,982.8	(8,626.7)	-25.7%	(2,803.4)	-10.1%	(1,874.9)	-7.0%
Health & Social Services	1,332,203.6	1,240,635.7	1,174,524.2	1,149,233.3	1,142,448.0	(189,755.6)	-14.2%	(32,076.2)	-2.7%	(6,785.3)	-0.6%
Labor & Workforce Dev	68,295.5	58,686.9	58,236.7	58,489.6	57,347.3	(10,948.2)	-16.0%	(889.4)	-1.5%	(1,142.3)	-2.0%
Law	64,003.2	58,418.9	53,617.6	50,137.2	53,247.6	(10,755.6)	-16.8%	(370.0)	-0.7%	3,110.4	6.2%
Military & Veterans' Affairs	24,218.0	16,267.8	16,277.1	16,377.8	16,588.7	(7,629.3)	-31.5%	311.6	1.9%	210.9	1.3%
Natural Resources	114,541.3	137,448.2	93,437.6	91,062.8	89,916.4	(24,624.9)	-21.5%	(3,521.2)	-3.8%	(1,146.4)	-1.3%
Public Safety	178,108.9	161,550.6	164,158.8	165,095.8	163,419.1	(14,689.8)	-8.2%	(739.7)	-0.5%	(1,676.7)	-1.0%
Revenue	35,282.0	30,120.4	28,723.8	28,795.6	27,883.9	(7,398.1)	-21.0%	(839.9)	-2.9%	(911.7)	-3.2%
Transportation & Public Facilities	346,772.3	301,106.2	282,240.4	282,464.2	272,563.6	(74,208.7)	-21.4%	(9,676.8)	-3.4%	(9,900.6)	-3.5%
University of Alaska	687,293.2	635,754.2	662,068.0	662,646.6	657,218.0	(30,075.2)	-4.4%	(4,850.0)	-0.7%	(5,428.6)	-0.8%
Branch-wide Unallocated Approp	27,000.0	-	-	-	(1,162.2)	(28,162.2)	-104.3%	(1,162.2)		(1,162.2)	
Judiciary	112,384.3	110,660.2	107,131.6	109,004.6	105,332.8	(7,051.5)	-6.3%	(1,798.8)	-1.7%	(3,671.8)	-3.4%
Legislature	77,688.4	65,860.3	64,739.4	65,979.8	65,819.9	(11,868.5)	-15.3%	1,080.5	1.7%	(159.9)	-0.2%
Total	**5,207,416.9**	**4,765,079.3**	**4,695,345.4**	**4,602,854.8**	**4,624,697.0**	**(582,719.9)**	**-11.2%**	**(70,648.4)**	**-1.5%**	**21,842.2**	**0.5%**
Statewide Items											
Debt Service	238,141.3	224,032.9	200,491.9	197,024.9	228,021.0	(10,120.3)	-4.2%	27,529.1	13.7%	30,996.1	15.7%
State Assistance to Retirement	8,017.0	265,021.8	224,070.9	224,070.9	192,526.6	184,509.6	2301.5%	(31,544.3)	-14.1%	(31,544.3)	-14.1%
Special Appropriations	13,366.8	6,633.3	4,417.0	-	-	(13,366.8)	-100.0%	(4,417.0)	-100.0%	-	
Fund Capitalization	682,558.8	653,667.6	60,141.0	32,149.0	76,148.9	(606,409.9)	-88.8%	16,007.9	26.6%	43,999.9	136.9%
Total	**942,083.9**	**1,149,355.6**	**489,120.8**	**453,244.8**	**496,696.5**	**(445,387.4)**	**-47.3%**	**7,575.7**	**1.5%**	**43,451.7**	**9.6%**
Permanent Fund ERA											
PF ERA Appropriations	1,987,000.0	1,423,114.7	718,650.0	718,650.0	721,650.0	(1,265,350.0)	-63.7%	3,000.0	0.4%	3,000.0	0.4%
Total	**1,987,000.0**	**1,423,114.7**	**718,650.0**	**718,650.0**	**721,650.0**	**(1,265,350.0)**	**-63.7%**	**3,000.0**	**0.4%**	**3,000.0**	**0.4%**
Statewide Total	**8,136,500.8**	**7,337,549.6**	**5,903,116.2**	**5,774,749.6**	**5,843,043.5**	**(2,293,457.3)**	**-28.2%**	**(60,072.7)**	**-1.0%**	**68,293.9**	**1.2%**
Unrestricted General (UGF)	7,409,968.3	6,675,160.7	4,964,224.0	4,906,834.3	4,898,052.6	(2,511,915.7)	-33.9%	(66,171.4)	-1.3%	(8,781.7)	-0.2%
Designated General (DGF)	726,532.5	662,388.9	938,892.2	867,915.3	944,990.9	218,458.4	30.1%	6,098.7	0.6%	77,075.6	8.9%
Fund Transfers	90,521.9	(213,034.5)	86,097.1	86,097.1	69,800.5	(20,721.4)	-22.9%	(16,296.6)	-18.9%	(16,296.6)	-18.9%

10-Year Debt Service Summary Table

($ thousands)

	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18Gov	FY17 to FY18Gov	Comments
Debt Service												
Clean Water Fund Bonds	2,050.0	1,005.0	2,710.0	2,448.8	1,795.4	1,698.8	1,601.7	1,682.7	1,674.1	1,602.9	(71.2)	ACWF Receipts
Drinking Water Fund Bonds	1,115.0	1,670.0	2,973.2	2,724.6	1,863.6	1,805.0	1,691.7	1,776.5	1,764.9	1,669.9	(95.0)	ADWF Receipts
Capital Project Reimbursement (HB 528)	8,036.2	5,548.9	5,707.3	6,071.0	5,871.5	5,601.3	5,472.0	4,599.4	4,625.3	4,561.5	(63.8)	UGF
Certificates of Participation (COPs)	8,061.3	8,036.3	8,009.5	6,943.5	6,982.5	1,795.8	4,569.2	4,655.2	2,894.2	2,892.2	(2.0)	UGF
One-time Defeasance - COPs	-	-	-	24,000.0	-	-	-	-	-	-	-	UGF
DOA for Atwood Building	3,467.1	3,467.1	3,467.1	3,467.0	3,467.0	3,467.0	3,467.0	3,467.0	3,467.0	-	(3,467.0)	UGF
DOA for Linny Pacillo Parking Garage	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	3,303.5	-	UGF
GO Bonds	43,865.8	48,944.9	58,760.1	84,188.5	84,692.8	85,342.9	81,393.6	79,044.1	82,644.6	89,816.8	7,172.2	UGF, Interest & Federal Rcpts
International Airport Revenue Bonds	50,027.4	50,028.7	50,047.9	41,571.5	41,208.4	42,353.1	50,733.0	43,731.5	76,400.0	45,418.3	(30,981.8)	IARF, PFCs, Fed
Int. Airport Revenue Bonds - Early Redemption	-	-	-	-	-	35,700.0	-	-	-	-	-	IARF, IACF
Anchorage Jail (Capital Lease)	5,091.2	5,103.9	5,108.0	4,028.7	4,101.2	4,108.7	3,598.7	-	-	-	-	UGF
One-time Defeasance - Anchorage Jail	-	-	-	25,000.0	-	-	-	-	-	-	-	UGF
Goose Creek Correctional Center	14,626.0	17,813.4	17,816.5	17,813.7	17,815.8	17,820.0	17,817.9	19,623.4	16,908.8	16,376.9	(531.9)	UGF
School Debt Reimbursement	95,005.4	100,045.3	106,258.5	108,145.6	115,386.3	112,907.8	121,218.0	123,423.0	91,498.0	115,956.6	24,458.6	UGF & School Fund
Sport Fish Hatchery Revenue Bonds	7,500.0	8,900.0	7,500.0	7,500.0	9,500.0	7,500.0	5,500.0	5,300.0	5,300.0	6,211.0	911.0	Sport Fish License Surcharge
Subtotal	**242,148.9**	**253,867.0**	**271,661.6**	**337,206.3**	**295,988.0**	**323,403.9**	**300,366.2**	**290,606.3**	**290,480.4**	**287,809.6**	**(2,670.9)**	
Off Budget Debt Service												
AHFC State Capital Project Bonds	6,139.6	6,139.9	6,140.8	6,139.0	10,779.3	10,880.3	10,535.0	10,367.3	12,428.3	12,004.0	(424.3)	Diverted AHFC Dividends
NTSC Tobacco Settlement Bonds (off budget)	29,800.0	25,200.0	23,600.0	23,500.0	24,000.0	23,900.0	23,300.0	24,300.0	23,100.0	22,900.0	(200.0)	Diverted Tobacco Settlement Revenue (to NTSC)
Subtotal	**35,939.6**	**31,339.9**	**29,740.8**	**29,639.0**	**34,779.3**	**34,780.3**	**33,835.0**	**34,667.3**	**35,528.3**	**34,904.0**	**(624.3)**	
TOTAL Debt Service/Reimbursement	**278,088.5**	**285,206.9**	**301,402.4**	**366,845.3**	**330,767.3**	**358,184.2**	**334,201.2**	**325,273.6**	**326,008.7**	**322,713.6**	**(3,295.1)**	
Debt Payments by Type												
GO Bonds	43,865.8	48,944.9	58,760.1	84,188.5	84,692.8	85,342.9	81,393.6	79,044.1	82,644.6	89,816.8	7,172.2	
Lease - Purchase Financing	34,549.1	37,724.2	37,704.6	84,556.3	35,670.0	30,495.0	32,756.2	31,049.1	26,573.5	22,572.6	(4,000.9)	COPs, Atwood Building, Parking Garage, Anchorage Jail, Goose Creek Prison
Revenue Bonds	57,527.4	58,928.7	57,547.9	49,071.5	50,708.4	85,553.1	56,233.0	49,031.5	81,700.0	51,629.3	(30,070.8)	International Airport, Sport Fish
Debt Reimbursement	103,041.6	105,594.2	111,965.8	114,216.6	121,257.8	118,509.1	126,690.0	128,022.4	96,123.3	120,518.1	24,394.8	School Debt, Municipal Capital Debt
Corporate Debt for State Capital Projects	35,939.6	31,339.9	29,740.8	29,639.0	34,779.3	34,780.3	33,835.0	34,667.3	35,528.3	34,904.0	(624.3)	AHFC, NTSC
Short Term Financing	3,165.0	2,675.0	5,683.2	5,173.4	3,659.0	3,503.8	3,293.4	3,459.2	3,439.0	3,272.8	(166.2)	Clean and Drinking Water

Note: All figures are final budgeted debt service. Actuals for debt service may vary.

Language Sections of the Governor's FY18 Operating Budget

DELETED SECTION: Legislative Intent Regarding Supplemental Appropriations

Legislative Fiscal Analyst Comment: In recent years the legislature has taken steps to reduce the need for routine supplemental appropriations. The purpose of this deleted section was to emphasize that supplemental operating appropriations are expected to be limited to needs that are truly unanticipated. Similar supplemental intent language has been retained in recent Governor's budget requests.

Sec. 4. COSTS OF JOB RECLASSIFICATIONS. The money appropriated in this Act includes the amount necessary to pay the costs of personal services because of reclassification of job classes during the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: This section was added by the legislature several years ago in response to agency requests for supplemental appropriations to cover the costs of reclassifying selected job classes that the legislature was not informed of in advance. The section clarifies that the cost of reclassifying positions is to be absorbed in an agency's existing budget.

Sec. 5. ALASKA AEROSPACE CORPORATION. Federal receipts and other corporate receipts of the Alaska Aerospace Corporation received during the fiscal year ending June 30, 2018, that are in excess of the amount appropriated in sec. 1 of this Act are appropriated to the Alaska Aerospace Corporation for operations for the fiscal year ending June 30, 2018.

This section is intended to maximize the Alaska Aerospace Corporation's (AAC) ability to attract launch activity by eliminating all questions regarding the corporation's ability to accept and spend receipts in a timely manner.

Funding: In FY18, the estimated impact of this section is zero. In recent years, general fund appropriations to AAC were reduced and ultimately eliminated in FY16. AAC is requesting a fund source change in the FY18 Governor's request to align federal and AAC Corporate Receipts with anticipated federal and private contracts.

Sec. 6. ALASKA HOUSING FINANCE CORPORATION. (a) The board of directors of the Alaska Housing Finance Corporation anticipates that $30,448,400 of the adjusted change in net assets from the second preceding fiscal year will be available for appropriation for the fiscal year ending June 30, 2018.

Subsection (a) is not an appropriation; it merely specifies the amount of corporate receipts that will be made available to the State as a FY18 dividend payment. The amounts available for dividends in FY15, FY16, and FY17 were $7.5 million, $8.7 million, and $25.9 million, respectively.

Legislative Fiscal Analyst Comment: The statutory dividend is the lesser of $103 million or 75% of the Alaska Housing Finance Corporation's (AHFC) change in net assets in the most recently completed fiscal year [AS 18.56.089(c)]. AHFC's net income declined precipitously after 2008 due to a declining market share as federal mortgage programs offered mortgages at low rates.

(b) The Alaska Housing Finance Corporation shall retain the amount set out in (a) of this section for the purpose of paying debt service for the fiscal year ending June 30, 2017, in the following estimated amounts:

(1) $1,000,000 for debt service on University of Alaska, Anchorage, dormitory construction, authorized under ch. 26, SLA 1996;

(2) $7,217,757 for debt service on the bonds described under ch. 1, SSSLA 2002;

(3) $3,786,256 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.

Subsection (b) makes no appropriation; it informs the legislature that AHFC will retain $12 million of the FY18 dividend in order to pay debt service on three AHFC-financed capital projects authorized by past legislatures—leaving $18,444,387 of the dividend available for appropriation.

(c) After deductions for the items set out in (b) of this section and deductions for appropriations for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2018, is appropriated to the unrestricted general fund.

Subsection (c) appropriates any unappropriated portion of the dividend to the general fund. After subtracting the debt service listed in subsection (b), the net dividend is $18,444,387. The Governor's request spends $13.7 million of the dividend for capital projects, leaving a $4,700,087 appropriation to the general fund.

Legislative Fiscal Analyst Comment: The traditional method of accounting for dividends is overly complex and serves little purpose. Corporate dividends have been classified as unrestricted general fund (UGF) revenue for years, and they count as UGF when they are spent.

Deactivating the dividend code and instead appropriating generic UGF would result in no loss of information and no significant change in budget reports. Subsections (b) and (c) could read:

(b) Of the amount set out in (a) of this section, the Alaska Housing Finance Corporation shall retain the following amounts for the purpose of paying debt service for the fiscal year ending June 30, 2017:

(1) $1,000,000 for debt service on University of Alaska, Anchorage, dormitory construction, authorized under ch. 26, SLA 1996;

(2) $7,217,757 for debt service on the bonds described under ch. 1, SSSLA 2002;

> (3) $3,786,256 for debt service on the bonds authorized under sec. 4, ch. 120, SLA 2004.
>
> (c) The amount set out in (a) of this section less the amount retained under (b) of this section, estimated to be $18,444,387, is appropriated from the Alaska Housing Finance Corporation to the general fund. (Subsection (c) should be identified as a non-lapsing appropriation.)

(d) All unrestricted mortgage loan interest payments, mortgage loan commitment fees, and other unrestricted receipts received by or accrued to the Alaska Housing Finance Corporation during the fiscal year ending June 30, 2018, and all income earned on assets of the corporation during that period are appropriated to the Alaska Housing Finance Corporation to hold as corporate receipts for the purposes described in AS 18.55 and AS 18.56. The corporation shall allocate its corporate receipts between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under procedures adopted by the board of directors.

Subsection (d) appropriates certain FY18 receipts of AHFC to the corporation and permits the corporation to allocate those receipts to the AHFC revolving loan fund and the senior housing revolving fund.

Funding: The corporate receipts used for purposes other than operating costs do not appear in the bill summary or in Legislative Finance Division reports. Corporate operating costs are appropriated in section 1.

(e) The sum of $800,000,000 is appropriated from the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2018, for housing loan programs not subsidized by the corporation.

(f) The sum of $30,000,000 is appropriated from the portion of the corporate receipts appropriated to the Alaska Housing Finance Corporation and allocated between the Alaska housing finance revolving fund (AS 18.56.082) and senior housing revolving fund (AS 18.56.710(a)) under (d) of this section that is derived from arbitrage earnings to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2018, for housing loan programs and projects subsidized by the corporation.

Subsections (e) and (f) appropriate bond proceeds and arbitrage earnings to various housing programs.

> **Legislative Fiscal Analyst Comment:** Because AHFC has statutory authority to issue bonds and transfer arbitrage earnings to its loan programs, subsections (e) and (f) could be removed. However, they do no harm and are informative. The amounts are not reflected in reports prepared by the Legislative Finance Division.

Sec. 7. ALASKA PERMANENT FUND CORPORATION.

Legislative Fiscal Analyst Comment: Section 7 is drafted to be compatible with a Permanent Fund bill submitted by the Governor on December 15. That bill would modify cash flows affecting both principal and earnings of the Permanent Fund.

The order of subsections could be changed to be more consistent with logical cash flows.

(a) The amount required to be deposited under AS 37.13.010(a), estimated to be $244,300,000, during the fiscal year ending June 30, 2018, is appropriated to the principal of the Alaska permanent fund in satisfaction of that requirement.

Subsection (a) identifies an amount of oil revenue flowing into the Permanent Fund. Because the constitution mandates that 25% of royalties be deposited in the Permanent Fund, that revenue (estimated to be $244.3 million) flows directly to the Permanent Fund without appropriation. In addition to mandated deposits, AS 37.13.010(a)(2) calls for an additional 25% of royalties from oil fields newer than 1979 to be deposited in the Permanent Fund. The non-mandated deposits (estimated to be $55 million) require an appropriation.

Dedicated deposits to the Permanent Fund are excluded from general fund revenue and from appropriations reported by the Legislative Finance Division. Until this year, non-mandatory deposits were also excluded from reports; those amounts should have been shown as general fund revenue matched by general fund appropriations to the Permanent Fund. The past error has no impact on the computation of deficits.

The Governor’s Permanent Fund bill eliminates non-mandatory deposits of royalty income to the Permanent Fund. Careful readers may note that Permanent Fund projections show royalty deposits of $299 million in FY18 versus the $244 million estimate above. As AS 37.13.010 currently reads, the appropriation in subsection (a) applies to both mandatory ($244 million) and additional royalties ($55 million) from post-1979 oil fields.

There are three noteworthy issues:

1. Subsection (a) will appropriate $299 million (not $244 million) from the general fund to the Permanent Fund unless AS 37.13.010 is revised.
2. Royalties no longer deposited in the Permanent Fund should not be included in the payout from the Earnings Reserve Account as shown on Office of Management and Budget’s (OMB) fiscal summary. The “new” revenue should be shown on a separate line in order to emphasize the impact of the Governor’s Permanent Fund bill.
3. The amount of FY17 non-mandatory deposits of royalties to the Permanent Fund that would occur under the Governor’s Permanent Fund bill is not clear—the bill repeals non-mandatory deposits on a non-specific date in FY17. This could be clarified by making the effective date either the beginning or end of FY17.

(b) The amount necessary for the payment of a dividend to each eligible individual of $1,000, estimated to be $695,650,000, is appropriated from the general fund to the dividend fund (AS 43.23.045(a) for the payment of permanent fund dividends and for administrative and associated costs for the fiscal year ending June 30, 2018.

Subsection (b) appropriates approximately $696 million from the general fund to pay dividends and associated expenses in FY18. For FY18 and FY19, the Governor's Permanent Fund bill overrides a statutory dividend formula with a dividend fixed at $1,000.

Legislative Fiscal Analyst Comment: Payment of dividends from the general fund (instead of from the Earnings Reserve Account) has policy implications that are important to the Governor's budget plan.

The estimated amount may be overstated by about $6 million.

(c) The income earned during the fiscal year ending June 30, 2018, on revenue from the sources set out in AS 37.13.145(d), estimated to be $26,000,000, is appropriated to the Alaska capital income fund (AS 37.05.565).

Subsection (c) appropriates FY18 earnings associated with the *State vs. Amerada Hess* settlement (that are held within the Permanent Fund) to the Alaska capital income fund. The capital income fund was established in FY05 and is customarily appropriated for capital projects.

Legislative Fiscal Analyst Comment: The *Amerada Hess* settlement resulted in the creation of a "fenced off" portion of the Permanent Fund that was intended to ensure that Alaska juries would not be personally affected (via PFDs) by lawsuits involving revenue to the Permanent Fund.

(d) The amount equal to five and one-quarter percent of the average market value of the Alaska permanent fund for the first five of the preceding six fiscal years, including the fiscal year ending June 30, 2016, and including the earnings reserve account established under AS 37.13.145, estimated to be $2,408,100,000, is appropriated from the earnings reserve account (AS 37.13.145) to the general fund for the fiscal year ending June 30, 2017.

Subsection (d) is a supplemental appropriation (effective in FY17).

Legislative Fiscal Analyst Comment: The appropriation—a percent of market value (POMV) payout—is based on Permanent Fund balances and essentially makes the Governor's Permanent Fund bill effective in FY17.

The appropriation from the Earnings Reserve Account shows as general fund revenue and reduces the FY17 deficit (and draw from the constitutional budget reserve fund) by the amount of the POMV payout to the general fund.

The $2.4 billion specified in subsection (d) arguably takes $696 million more from the Earnings Reserve Account than the POMV payout formula permits; the appropriation fails to reduce the general fund deposit by the $696 million paid from the Earnings Reserve Account in FY17 for FY17 dividends.

The amount should not be an estimate; the formula to determine the POMV payout from the Earnings Reserve Account to the general fund was designed to reduce revenue volatility and to provide advance knowledge of the amount of revenue available. All the numbers required to make the calculation are available well in advance of budget deliberations.

Legislative Fiscal Analyst Recommendation: The amount of the appropriation should be a specific amount, not an estimate.

The Alaska Permanent Fund Corporation, Department of Revenue, Office of Management and Budget, and Legislative Finance Division should agree on accounting and budget rules so that the legislature has a single set of "facts" to deal with.

(e) The amount equal to five and one-quarter percent of the average market value of the Alaska permanent fund, including the earnings reserve account established under AS 37.13.145, for the first five of the preceding six fiscal years, including the fiscal year ending June 30, 2017, estimated to be $2,507,000,000, is appropriated from the earnings reserve account (AS 37.13.145) to the general fund for the fiscal year ending June 30, 2018.

Subsection (e) makes a $2.5 billion POMV payout from the Earnings Reserve Account to the general fund as envisioned in the Governor's fiscal plan.

Legislative Fiscal Analyst Comment: The fiscal summary shows this transfer from the Earnings Reserve Account as unrestricted general fund revenue. The impact on the deficit is reduced by the $696 million general fund appropriation for dividends in subsection (b).

Legislative Fiscal Analyst Recommendation: The amount of the appropriation should be a calculated amount, not an estimate.

(f) The appropriation made in (e) of this section is reduced by the difference between the amount calculated under (1) of this subsection and the amount under (2) of the subsection if the amount calculated under (1) of this subsection exceeds the amount under (2) of this subsection:

(1) the total amount of oil and gas production taxes under AS 43.55.011 - 43.55.180, mineral lease rentals, royalties, royalty sale proceeds, net profit shares under AS 38.05.180(f) and (g), and federal mineral revenue sharing payments and bonuses received by the state from mineral leases and deposited into the general fund in the fiscal year ending June 30, 2017, less 20 percent of the appropriation made in (e) of this section;

(2) $1,200,000,000.

Subsection (f) is intended to restrict the POMV payout from the Earnings Reserve Account if oil prices recover. In concept, the language prevents having a "too large"

POMV payout at high oil prices, and is intended to act as an expenditure limit. In practice, the provision encourages the establishment of non-oil taxes because restricting the POMV payout may leave a deficit even at high oil prices. Subsection (f) will not apply unless oil prices are above about $80 per barrel—a price level that is not anticipated in FY18.

Sec. 8. ALASKA INDUSTRIAL DEVELOPMENT AND EXPORT AUTHORITY. (a) An estimated $9,500,000 will be declared available by the Alaska Industrial Development and Export Authority board of directors under AS 44.88.088 for appropriation as the dividend for the fiscal year ending June 30, 2018, from the unrestricted balance in the Alaska Industrial Development and Export Authority revolving fund (AS 44.88.060).

Subsection (a) informs the legislature that the anticipated annual Alaska Industrial Development and Export Authority (AIDEA) corporate dividend to the State will be $9.5 million. Dividends for FY16 and FY17 were $17.65 million and $6.3 million, respectively. By statute (AS 44.88.088), the dividend made available should not be less than 25 percent and not more than 50 percent of the base year statutory net income. This year's dividend is the maximum available by law.

(b) After deductions for appropriations made for operating and capital purposes are made, any remaining balance of the amount set out in (a) of this section for the fiscal year ending June 30, 2017, is appropriated to the unrestricted general fund.

Subsection (b) appropriates any "unused" portion of the dividend to the general fund. The provision is unnecessary; because dividends are included in general fund revenue, any dividends that are unappropriated remain in the general fund.

Legislative Fiscal Analyst Recommendation: As with AHFC dividends (see section 6), AIDEA dividends could be appropriated to the general fund and the dividend fund code could be deactivated.

Sec. 9. DEPARTMENT OF ADMINISTRATION. (a) The amount necessary to fund the uses of the state insurance catastrophe reserve account described in AS 37.05.289(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2018.

Subsection (a) references the statute that allows up to $5 million to be swept from lapsing general fund appropriations into the catastrophe reserve account. It appropriates funds from the catastrophe reserve account to the Department of Administration to obtain insurance, establish reserves for the self-insurance program, and to satisfy claims or judgments arising under the program.

Legislative Fiscal Analyst Comment: This section re-emphasizes the State's authority to expend funds from the state insurance catastrophe reserve account described in AS 37.05.289(a). The language may not be necessary, but it does no harm.

The catastrophe reserve account sweeps lapsing general fund appropriations annually to maintain a balance not to exceed $5 million. If these funds were not available, two opportunities would remain for meeting catastrophic situations: 1) supplemental appropriations by the legislature; and 2) judgment legislation. Delays that could occur with legislative remedies would cause difficulty in situations that require immediate action.

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred and spent but does not increase total appropriations.

(b) The amount necessary to fund the uses of the working reserve account described in AS 37.05.510(a) is appropriated from that account to the Department of Administration for those uses for the fiscal year ending June 30, 2018.

Subsection (b) appropriates funds from the working reserve account to the Department of Administration to pay leave cash-out, terminal leave, unemployment insurance contributions, workers compensation, and general liability claims.

Legislative Fiscal Analyst Comment: This section re-emphasizes the State's authority to expend funds from the working reserve account described in AS 37.05.510. The language may not be necessary, but it does no harm.

The working reserve account consists primarily of money appropriated to agencies (for the listed purposes) as a portion of personal services costs. The Department of Administration allocates money from each agency to the working reserve account as part of the payroll process. If the amount in the account is insufficient to cover expenses, the Department of Administration may sweep lapsing personal services appropriations in order to cover expenses.

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred to and spent by the Department of Administration, but it does not increase total appropriations.

The FY18 estimated amount required for working reserves is $42.5 million, a decrease of $0.8 million from FY17.

(c) The amount necessary to have an unobligated balance of $5,000,000 in the working reserve account described in AS 37.05.510(a) is appropriated from the unencumbered balance of any appropriation enacted to finance the payment of employee salaries and benefits that is determined to be available for lapse at the end of the fiscal year ending June 30, 2018.

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred to and spent by the Department of Administration, but it does not increase total appropriations.

Legislative Fiscal Analyst Comment: This section re-emphasizes the State's authority to scoop lapsing balances to the working reserve account described in AS 37.05.510. The language may not be necessary, but it does no harm.

The provision first appeared in FY17. At that time, it appeared that the administration hoped to scoop lapsing funds to balance cash inflow with cash outlay without increasing contribution rates. Working reserve contribution rates were increased for FY18, but executive branch agencies did not request funds to pay the cost increases. It appears that the administration hopes to use both higher cash inflows and lapsing balances on the personal services line to ensure that the balance of the fund is sufficient to cover expenses.

New Subsection

(d) The amount necessary to have an unobligated balance of $5,000,000 in the group health and life benefits fund (AS 39.30.095), after the appropriations in (b) and (c) of this section, is appropriated from the unencumbered balance of any appropriation that is determined to be available for lapse at the end of the fiscal year ending June 30, 2018.

Funding: This provision has no fiscal impact; it allows money appropriated elsewhere to be transferred to the Group Health and Life Benefits Fund, but it does not increase total appropriations.

Legislative Fiscal Analyst Comment: In FY17, the Governor requested a deposit of $20 million UGF into the Group Health and Life Benefits Fund. The fund balance was declining rapidly due to an increase in insurance claims and was anticipated to be exhausted by the end of FY17.

The legislature appropriated $7.5 million UGF into the fund and accepted non-UGF increments associated with increasing the employer rates for AlaskaCare members. Employer rates did not increase at the beginning of FY17. As of June 30, 2016, the unobligated balance of the Group Health and Life Benefits Fund was $6.2 million.

AlaskaCare employer rates are scheduled to increase effective January 1, 2017 from $1,346 to $1,555 – an increase of $209 per month per employee for the remainder of FY17. Supplemental requests may be submitted to cover the cost increase for the second half of FY17. The FY18 Governor’s operating budget includes salary adjustment increases for a full year.

In addition to employer cost increases, employee rates increased across all plans effective January 1, 2017 and are expected to increase again January 1, 2018. The changes in employer and employee rates will increase the balance of the fund; however, projections of the fund balance are imprecise because future insurance claims are unknown.

(e) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be $150,000, is appropriated to the Alaska Oil and Gas Conservation

Commission for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2018.

Subsection (e) permits the Alaska Oil and Gas Conservation Commission (AOGCC) to collect on a performance bond, should that action become necessary.

Legislative Fiscal Analyst Comment: AOGCC reported some difficulty in working with an operator during FY13 and requested the language as a precautionary measure. Until FY13, similar language was not considered necessary because there was little concern that reclamation efforts would be required. Similar language in section 14(c) applies to the Department of Natural Resources.

New Subsection

(f) If the amount appropriated is insufficient to cover actuarial costs for retirement system benefit payment calculations, after all allowable payments from retirement system fund sources, the amount, estimated to be $0, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2018.

Subsection (f) appropriates general funds to pay for actuarial costs for retirement system benefit calculations that exceed the amount appropriated to the Department of Administration in section 1.

Legislative Fiscal Analyst Comment: Actuarial costs for retirement systems are typically paid by the applicable retirement trust funds. This section was intended to address actuarial costs associated with bills introduced by the legislature. Those costs may not be payable from the retirement trust accounts.

Legislative Fiscal Analyst Recommendation: Clarify the language section to pay specifically for actuarial costs associated with bills introduced by the legislature as follows: (f) The amount required to cover actuarial costs associated with bills introduced by the legislature, estimated to be $0, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2018.

Sec. 10. DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. (a) The unexpended and unobligated balance of federal money apportioned to the state as national forest income that the Department of Commerce, Community, and Economic Development determines would lapse into the unrestricted portion of the general fund on June 30, 2018, under AS 41.15.180(j) is appropriated to home rule cities, first class cities, second class cities, a municipality organized under federal law, or regional educational attendance areas entitled to payment from the national forest income for the fiscal year ending June 30, 2018, to be allocated among the recipients of

national forest income according to their pro rata share of the total amount distributed under AS 41.15.180(c) and (d) for the fiscal year ending June 30, 2018.

Subsection (a) appropriates any remaining balance of National Forest Receipts to be paid as grants to local governments in the unorganized borough.

Legislative Fiscal Analyst Comment: National Forest Receipts consist of national forest income received by the Department of Commerce, Community and Economic Development (DCCED) for the portion of national forests located within the unorganized borough. By law, 75 percent of the income is allocated to public schools and 25 percent for maintenance of public roads in the unorganized borough.

AS 41.15.180(j) states that the amount in the national forest receipts fund remaining at the end of the fiscal year lapses into the general fund and shall be used for school and road maintenance in the affected areas of the unorganized borough for which direct distribution has not been made.

Under AS 41.15.180(j) lapsing money must be spent in areas that do not receive money under AS 41.15.180(c) and (d). Subsection (a) takes money that would otherwise be spent in unorganized areas within the unorganized borough and appropriates it to local governments within the unorganized borough.

(b) If the amount necessary to make national forest receipts payments under AS 41.15.180 exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make national forest receipt payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, national forest receipts allocation, for the fiscal year ending June 30, 2018.

Subsection (b) is an open-ended appropriation intended to ensure that all federal funding received for the National Forest Receipts program is disbursed expeditiously to communities.

Funding: The estimated impact of this section is zero. The $600,000 appropriated in section 1 for this program is expected to be sufficient.

Legislative Fiscal Analyst Comment: Although the National Forest Receipts program was scheduled to sunset in FY08, the program continues to be reauthorized each year. If the program is not extended by Congress, National Forest Receipt Payments for FY18 will revert to the original distribution formula of about $600,000 and continue at the same level in future years.

Historical National Forest Receipt revenue levels are:

- FY10 - $18,590,500
- FY11 - $15,857,600
- FY12 - $15,381,800
- FY13 - $13,878,300
- FY14 - $12,173,600
- FY15 - $11,668,100

- FY16 - $9,871,300
- FY17 Estimate - $600,000
- FY18 Estimate - $600,000

Legislative Fiscal Analyst Recommendation: Retain subsections (a) and (b) despite the uncertain outlook for FY18. If there is no program, the language does no harm; if the program is reauthorized, Alaska will be ready to distribute money to communities.

(c) If the amount necessary to make payments in lieu of taxes for cities in the unorganized borough under AS 44.33.020(a)(20) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the amount necessary to make those payments is appropriated from federal receipts received for that purpose to the Department of Commerce, Community, and Economic Development, revenue sharing, payment in lieu of taxes allocation, for the fiscal year ending June 30, 2018.

Subsection (c) is intended to ensure that all federal funding received for the Payment in Lieu of Taxes (PILT) program is disbursed to communities expeditiously.

Funding: The estimated impact of this section is zero. The $10.4 million appropriated in section 1 for this program should be sufficient.

(d) An amount equal to the salmon enhancement tax collected under AS 43.76.001 - 43.76.028 in calendar year 2016, estimated to be $6,600,000, and deposited in the general fund under AS 43.76.025(c) is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2018, to qualified regional associations operating within a region designated under AS 16.10.375.

Funding: These "pass-through" amounts (estimated to be $6.6 million) are excluded from Legislative Finance Division reports on the operating bill.

(e) An amount equal to the seafood development tax collected under AS 43.76.350 - 43.76.399 in calendar year 2016, estimated to be $1,500,000, and deposited in the general fund under AS 43.76.380(d), is appropriated from the general fund to the Department of Commerce, Community, and Economic Development for payment in the fiscal year ending June 30, 2018, to qualified regional seafood development associations for the following purposes:

(1) promotion of seafood and seafood by-products that are harvested in the region and processed for sale;

(2) promotion of improvements to the commercial fishing industry and infrastructure in the seafood development region;

(3) establishment of education, research, advertising, or sales promotion programs for seafood products harvested in the region;

(4) preparation of market research and product development plans for the promotion of seafood and their by-products that are harvested in the region and processed for sale;

(5) cooperation with the Alaska Seafood Marketing Institute and other public or private boards, organizations, or agencies engaged in work or activities similar to the work of the organization, including entering into contracts for joint programs of consumer education, sales promotion, quality control, advertising, and research in the production, processing, or distribution of seafood harvested in the region;

(6) cooperation with commercial fishermen, fishermen's organizations, seafood processors, the Alaska Fisheries Development Foundation, the Fisheries Industrial Technology Center, state and federal agencies, and other relevant persons and entities to investigate market reception to new seafood product forms and to develop commodity standards and future markets for seafood products.

Funding: These "pass-through" amounts (estimated to be $1.5 million) are excluded from Legislative Finance Division reports on the operating bill.

(f) The amount necessary, estimated to be $37,855,000, not to exceed the amount determined under AS 42.45.085(a), is appropriated from the power cost equalization endowment fund (AS 42.45.070(a)) to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, power cost equalization allocation, for the fiscal year ending June 30, 2018.

Subsection (f) appropriates money from the Power Cost Equalization Endowment fund to the Alaska Energy Authority (AEA) for the Power Cost Equalization (PCE) program. As of June 30, 2016, the endowment fund balance was $946.9 million.

Funding: Total program cost is projected to be $37.9 million in FY18—$2.5 million less than the level of funding appropriated in FY17. The endowment payout is expected to fully cover program costs with a payout of about 3.7% in FY16, 4.4% in FY17, and 4% in FY18.

Legislative Fiscal Analyst Comment: During the 2016 legislative session, Chapter 43, SLA 2016 (SB 196) adopted statutory guidelines for uses of excess earnings of the PCE Endowment Fund. The amount of excess earnings is determined by subtracting anticipated PCE program costs from earnings in the most recently closed fiscal year. The first 30% of the excess earnings remain in the fund and 70% of the excess earnings are available for appropriation as follows:

1) First, up to $30 million is allocated to the Community Assistance program.

2) Second, up to $25 million is allocated to Rural Energy programs.

FY16 earnings were $8.9 million – $29.7 million below FY18 estimated program costs of $38.6 million. No excess earnings are available for the Community Assistance or Rural Energy Programs in FY18.

SB 196 adjusted the allowable percent payout from the PCE Endowment from seven percent to five percent. Projected program costs continue to be below the statutory formula.

New Subsections

(g) The sum of $55,000,000 is appropriated from the Alaska comprehensive health insurance fund (AS 21.55.430) to the Department of Commerce, Community, and Economic Development, division of insurance, for the calendar year 2018 Alaska Reinsurance program for the fiscal year ending June 30, 2018, and June 30, 2019.

(h) The sum of $55,000,000 is appropriated from the Alaska comprehensive health insurance fund (AS 21.55.430) to the Department of Commerce, Community, and Economic Development, division of insurance, for the calendar year 2017 Alaska Reinsurance program for the fiscal year ending June 30, 2017, and June 30, 2018.

Subsections (g) and (h) appropriate money from the Alaska Comprehensive Health Insurance fund to the Division of Insurance for the Alaska Reinsurance program. The reinsurance program goes into effect on January 1, 2017 and is operated on a calendar year basis. The department is requesting multi-year appropriations to address this timing issue as follows:

- $55 million for FY17-FY18 (supplemental multi-year) for calendar year 2017
- $55 million for FY18-FY19 (multi-year) for calendar year 2018

Funding: The total program cost is projected to be $55 million annually.

Legislative Fiscal Analyst Comments: The Division of Insurance annually collects approximately $62 million in insurance premium tax receipts. Of that amount, about $5 million associated with workers' compensation premium taxes goes to the Workers' Safety and Compensation Administration Account, which is used for operating costs of the Workers' Compensation Division within the Department of Labor and Workforce Development. Until FY16, the remaining $57 million of excess insurance premium tax receipts went to the general fund.

Chapter 5, SSSLA 2016 (HB 374) established the Alaska Comprehensive Health Insurance (ACHI) fund. Under HB 374, insurance premium tax receipts are deposited into the ACHI fund. This reduces unrestricted general fund revenue by approximately $57 million. In FY17, $55 million was appropriated to the division from the ACHI fund for the reinsurance program, leaving $2 million in the ACHI fund.

HB 374 allows the legislature to appropriate up to the annual estimated balance of the ACHI fund to a newly established reinsurance program. The reinsurance program is intended to mitigate the steep increase in premium rates in the individual health insurance market within the state by removing a portion of high risk individuals from the insurance pool. Under the program, Premera, the state's only remaining health insurer in the individual market, will continue as the primary insurer and will seek reimbursement from the Alaska Comprehensive Health Insurance Fund for those high-cost claims paid. The success of the program was immediately apparent when 2017 rates were released; the average rate increase for 2017 was 7.3%, which is a sharp drop from the nearly 40% increases in the prior two years.

A fiscal note appropriating $55 million to the Division of Insurance for the Reinsurance program was adopted (effective in FY17). The Governor's request replaces the FY17 fiscal note appropriation (see the repeal in section 28) with a multi-year appropriation (subsection (h)) to address the calendar-year nature of the program.

Sec. 11. DEPARTMENT OF FISH AND GAME. (a) An amount equal to the dive fishery management assessment collected under AS 43.76.150 - 43.76.210 in the fiscal year ending June 30, 2017, estimated to be $500,000, and deposited in the general fund, is appropriated from the general fund to the Department of Fish and Game for payment in the fiscal year ending June 30, 2018, to the qualified regional dive fishery development association in the administrative area where the assessment was collected.

Funding: These "pass-through" amounts, estimated to be $500,000, are excluded from Legislative Finance Division reports on the operating bill.

(b) After the appropriation made in sec. 21(j) of this Act, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), not to exceed $500,000, is appropriated to the Department of Fish and Game for sport fish operations for the fiscal year ending June 30, 2018.

Subsection (b) appropriates up to $500,000 from the Alaska sport fish enterprise account in the Fish and Game Fund to the Department of Fish and Game for the Division of Sport Fish operations *after* appropriations in section 21(j) for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds have occurred. [For more information on appropriations from this account, see comments under section 21(j), (k) and (l).]

Sec. 12. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT. (a) If the amount necessary to pay benefit payments from the workers' compensation benefits guaranty fund (AS 23.30.082) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, workers' compensation benefits guaranty fund allocation, for the fiscal year ending June 30, 2018.

Subsection (a) allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero; the $774,400 appropriation in section 1 is expected to be sufficient.

(b) If the amount necessary to pay benefit payments from the second injury fund (AS 23.30.040(a)) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to make those benefit payments is appropriated for that purpose from the second injury fund to the Department of Labor and Workforce Development, second injury fund allocation, for the fiscal year ending June 30, 2018.

Subsection (b) allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero; the $3,414,300 appropriation in section 1 is expected to be sufficient.

(c) If the amount necessary to pay benefit payments from the fishermen's fund (AS 23.35.060) exceeds the amount appropriated for that purpose in sec. 1 of this Act, the additional amount necessary to pay those benefit payments is appropriated for that purpose from that fund to the Department of Labor and Workforce Development, fishermen's fund allocation, for the fiscal year ending June 30, 2018.

Subsection (c) allows benefit payments to exceed the amount appropriated in section 1, ensuring that expenditure authorization will be sufficient to pay benefits required by law.

Funding: The estimated impact of this section is zero; the $1,458,900 appropriation in section 1 is expected to be sufficient.

(d) If the amount of contributions received by the Alaska Vocational Technical Center under AS 21.96.070, AS 43.20.014, AS 43.55.019, AS 43.56.018, AS 43.65.018, AS 43.75.018, and AS 43.77.045 during the fiscal year ending June 30, 2018, exceeds the amount appropriated for the Department of Labor and Workforce Development, Alaska Vocational Technical Center, in sec. 1 of this Act, the additional contributions are appropriated to the Department of Labor and Workforce Development, Alaska Vocational Technical Center, Alaska Vocational Technical Center allocation, for the purpose of operating the center, for the fiscal year ending June 30, 2018.

Subsection (d) provides open-ended authority to spend program receipts, thereby eliminating all questions regarding Alaska Vocational Technical Center's (AVTEC) ability to accept and spend receipts in a timely manner.

Funding: The estimated impact of this section is zero; the $3,082,200 appropriation in section 1 is expected to be sufficient.

Sec. 13. DEPARTMENT OF MILITARY AND VETERANS' AFFAIRS. Five percent of the average ending market value in the Alaska veterans' memorial endowment fund (AS 37.14.700) for the fiscal years ending June 30, 2015, June 30, 2016, and June 30, 2017, estimated to be $11,400, is appropriated from the Alaska veterans' memorial endowment fund to the Department of Military and Veterans' Affairs for the purposes specified in AS 37.14.730(b) for the fiscal year ending June 30, 2018.

Section 13 appropriates the payout from the endowment to the Department of Military and Veterans' Affairs. The payout may be used for maintenance, repair, and construction of monuments to the military.

Sec. 14. DEPARTMENT OF NATURAL RESOURCES. (a) The interest earned during the fiscal year ending June 30, 2018, on the reclamation bond posted by Cook Inlet Energy for operation of an oil production platform in Cook Inlet under lease with the Department of Natural Resources, estimated to be $150,000, is appropriated from interest held in the general fund to the Department of Natural Resources for the purpose of the bond for the fiscal years ending June 30, 2018, June 30, 2019, and June 30, 2020.

Subsection (a) appropriates the interest earned on the bond posted by Cook Inlet Energy to the Department of Natural Resources (DNR) for the purpose of the bond.

Legislative Fiscal Analyst Comment: This situation is atypical for reclamation bonding. In 2009, Pacific Energy Resources, Ltd. declared bankruptcy and abandoned the Redoubt Unit in Cook Inlet. Their bond was transferred to DNR for reclamation of the site. Cook Inlet Energy (CIE) then purchased the Redoubt Unit, which meant that DNR did not need to perform further site reclamation work and that the State was holding cash from the Pacific Energy Resources bond. That cash was applied to the reclamation bond requirements imposed on Cook Inlet Energy. As a cost saving measure, the proceeds from the Pacific Energy Resources bond were retained in the general fund. This section appropriates the earnings on the bond to DNR to cover potential reclamation activity in the future.

Funding: The estimated earnings are $150,000.

(b) The amount necessary for the purposes specified in AS 37.14.820 for the fiscal year ending June 30, 2018, estimated to be $50,000, is appropriated from the mine reclamation trust fund operating account (AS 37.14.800(a)) to the Department of Natural Resources for those purposes for the fiscal year ending June 30, 2018.

Subsection (b) appropriates money from the Mine Reclamation Trust Fund operating account to DNR for the purposes specified in AS 37.14.820 (mine reclamation activities).

Legislative Fiscal Analyst Comment: This section may not be required but does no harm; the appropriation contained in section 22(h)—an internal transfer of funds from the income account to the operating account—appears to satisfy the appropriation requirement of AS 37.14.800(b). Once that internal transfer occurs, expenditures require no further appropriation per AS 37.14.820.

Funding: The agency estimates the amount needed for mine reclamation expenditures is about $50,000. The money is spent in the Claims, Permits and Leases allocation for reclamation of land use permits and leases on state lands.

Legislative Fiscal Analyst Recommendation: Although this section may not be required, it should be retained because the appropriation in section 22(h) is classified as a transfer within a fund (so it does not appear as a budget transaction).

Subsection (b) ensures that the use of earnings appears as an appropriation of new money in the allocation in which the money is spent.

(c) The amount received in settlement of a claim against a bond guaranteeing the reclamation of state, federal, or private land, including the plugging or repair of a well, estimated to be $50,000, is appropriated to the Department of Natural Resources for the purpose of reclaiming the state, federal, or private land affected by a use covered by the bond for the fiscal year ending June 30, 2018.

Subsection (c) appropriates receipts associated with bonds for land reclamation to the agencies that will direct the reclamation activities.

Funding: The Department of Natural Resources estimates the impact of this section to be $50,000: $25,000 for reclamation associated with land use permits and leases on state lands in the Mining, Land and Water allocation; and $25,000 for reclamation bonds associated with timber sales on state lands in the Forest Management and Development allocation.

Legislative Fiscal Analyst Comment: Similar language in section 9(e) applies to the Department of Administration.

(d) Federal receipts received for fire suppression during the fiscal year ending June 30, 2018, estimated to be $8,500,000, are appropriated to the Department of Natural Resources for fire suppression activities for the fiscal year ending June 30, 2018.

Subsection (d) appropriates an open-ended amount of federal receipts received for fire suppression to the Department of Natural Resources.

(e) If any portion of the federal receipts appropriated to the Department of Natural Resources for division of forestry wildland firefighting crews is not received, that amount, not to exceed $1,125,000, is appropriated from the general fund to the Department of Natural Resources, fire suppression preparedness, for the purpose of paying costs of the division of forestry wildland firefighting crews for the fiscal year ending June 30, 2018.

Subsection (e) appropriates unrestricted general funds to replace federal funds in the event that federal grant funding fails to fully materialize. The department supports three "Hotshot" professional firefighting crews at $375,000 each through competitive federal grants. Competition for this federal funding has increased, and this language ensures that the department can retain these crews by using general funds if Alaska does not secure federal grants.

Funding: The maximum expected impact of this section is $1,125,000 of unrestricted general funds.

Legislative Fiscal Analyst Recommendation: For clarification, the Hotshot crews could be placed in a separate allocation in section 1. Associated costs are not presently identifiable in the budget system.

Sec. 15. DEPARTMENT OF REVENUE. Program receipts collected as cost recovery for paternity testing administered by the child support services agency, as required under AS 25.27.040 and 25.27.165, and as collected under AS 25.20.050(f), estimated to be $46,000, are appropriated to the Department of Revenue, child support services agency, for child support activities for the fiscal year ending June 30, 2018.

Section 15 appropriates (to the Child Support Services Division) receipts collected to recover the costs of paternity testing.

Legislative Fiscal Analyst Recommendation: Eliminate section 15. Instead, appropriate $50,000 to the Department of Revenue in section 1.

Sec. 16. UNIVERSITY OF ALASKA. The amount of the fees collected under AS 28.10.421(d) during the fiscal year ending June 30, 2017, for the issuance of special request university plates, less the cost of issuing the license plates, estimated to be $600, is appropriated from the general fund to the University of Alaska for support of alumni programs at the campuses of the university for the fiscal year ending June 30, 2018.

Funding: The University of Alaska expects to receive about $600 under this section.

Legislative Fiscal Analyst Recommendation: Eliminate section 16. Instead, appropriate $1,000 to the University of Alaska in section 1.

Sec. 17. OFFICE OF THE GOVERNOR. The sum of $1,847,000 is appropriated from the general fund to the Office of the Governor, division of elections, for costs associated with conducting the statewide primary and general elections for the fiscal years ending June 30, 2018, and June 30, 2019.

Section 17 appropriates $1,847,000 from the general fund to the Division of Elections for the costs associated with the statewide primary and general elections for FY18 and FY19.

Legislative Fiscal Analyst Comment: Beginning in FY17, the cost of holding elections every two years was divided in half to reduce volatility in the final authorized budget of the Office of the Governor while allowing for sufficient funding to conduct elections. Note that section 17 appropriates money for a two-year period, so money not spent in FY18—expected to be nearly all of the FY18 appropriation—will be available in FY19. That money will combine with $1.8 million appropriated next year for FY19 and FY20.

Sec. 18. BANKCARD SERVICE FEES. (a) The amount necessary to compensate the collector or trustee of fees, licenses, taxes, or other money belonging to the state during the fiscal year ending June 30, 2018, is appropriated for that purpose for the fiscal year ending

June 30, 2018, to the agency authorized by law to generate the revenue, from the funds and accounts in which the payments received by the state are deposited. In this subsection, "collector or trustee" includes vendors retained by the state on a contingency fee basis.

Subsection (a) allows the State to compensate vendors that collect fees on behalf of the State. The provision originally addressed Fish and Game fishing, hunting, and trapping license sales in which the vendor retained a portion of the sales. It now applies to several programs in multiple departments.

Funding: These fees do not appear in the bill summary or in Legislative Finance Division reports on the grounds that the State has no effective control over the money.

(b) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2018, is appropriated for that purpose for the fiscal year ending June 30, 2018, to each agency of the executive, legislative, and judicial branches that accepts payment by bankcard or credit card for licenses, permits, goods, and services provided by that agency on behalf of the state, from the funds and accounts in which the payments received by the state are deposited.

Subsection (b) allows credit card service providers to retain fees charged for using a credit card.

Funding: These fees do not appear in the bill summary or in Legislative Finance Division reports on the grounds that the State has no effective control over the money.

(c) The amount necessary to compensate the provider of bankcard or credit card services to the state during the fiscal year ending June 30, 2018, is appropriated for that purpose for the fiscal year ending June 30, 2018, to the Department of Law for accepting payment of restitution in accordance with AS 12.55.051 and AS 47.12.170 by bankcard or credit card, from the funds and accounts in which the restitution payments received by the Department of Law are deposited.

Subsection (c) allows credit card service providers to retain fees charged for using a credit card for *payment of restitution*.

Funding: These fees do not appear in the bill summary or in Legislative Finance Division reports on the grounds that the State has no effective control over the money.

Sec. 19. DEBT AND OTHER OBLIGATIONS. (a) The amount required to pay interest on any revenue anticipation notes issued by the commissioner of revenue under AS 43.08 during the fiscal year ending June 30, 2018, estimated to be zero, is appropriated from the general fund to the Department of Revenue for payment of the interest on those notes for the fiscal year ending June 30, 2018.

Subsection (a) appropriates general funds to pay interest on any revenue anticipation notes that may be issued during the year. This is precautionary language; revenue anticipation notes have not been issued by the State for at least 30 years, and may never have been issued.

Legislative Fiscal Analyst Comment: No notes are expected to be issued in FY18.

(b) The amount required to be paid by the state for the principal of and interest on all issued and outstanding state-guaranteed bonds, estimated to be zero, is appropriated from the general fund to the Alaska Housing Finance Corporation for payment of the principal of and interest on those bonds for the fiscal year ending June 30, 2018.

Subsection (b) appropriates general funds to pay principal and interest on state-guaranteed bonds (veteran's mortgage bonds) if the revenue stream from the mortgage loans is insufficient to make those payments. The primary purpose of the state general obligation pledge is to gain tax-exempt status for the bonds, but it also enhances the credit pledge and marketability of the bonds. The veteran's mortgage bonds have achieved the best credit rating (triple A) on their own and there have been no draws upon the State's general obligation pledge for payment. Because the bonds are general obligations of the State, they must be authorized by law, ratified by the voters, and approved by the State Bond Committee.

Funding: The revenue stream from mortgage loans is expected to be sufficient to cover bond payments, so the expected fiscal impact of this subsection is zero; however, a potential general fund obligation exists.

(c) The amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2018, estimated to be $1,602,900, is appropriated from interest earnings of the Alaska clean water fund (AS 46.03.032(a)) to the Alaska clean water fund revenue bond redemption fund (AS 37.15.565).

(d) The amount necessary for payment of principal and interest, redemption premium, and trustee fees, if any, on bonds issued by the state bond committee under AS 37.15.560 for the fiscal year ending June 30, 2018, estimated to be $1,669,900, is appropriated from interest earnings of the Alaska drinking water fund (AS 46.03.036(a)) to the Alaska drinking water fund revenue bond redemption fund (AS 37.15.565).

Subsections (c) and (d) appropriate the interest earnings of the clean water and drinking water funds to their respective bond redemption funds. Both funds are capitalized annually with federal receipts and drinking and clean water bond receipts [see sections 21(f)-(i)]. The federal receipts require a state match. Federal rules permit interest earnings of the loan funds to be used to pay debt service as well as make loans. These subsections avoid general fund match appropriations by taking advantage of the ability to use earnings on the funds to pay debt service. Issuing short-term bonds (secured by the assets of the loan fund) allows the "restricted" earnings of the funds to be used to pay off the bonds. Essentially, the earnings of the funds are used to match federal receipts.

(e) The sum of $4,561,454 is appropriated from the general fund to the following agencies for the fiscal year ending June 30, 2018, for payment of debt service on outstanding debt authorized by AS 14.40.257, AS 29.60.700, and AS 42.45.065, respectively, for the following projects:

AGENCY AND PROJECT	APPROPRIATION AMOUNT
(1) University of Alaska	$1,215,650
Anchorage Community and Technical College Center	
Juneau Readiness Center/UAS Joint Facility	
(2) Department of Transportation and Public Facilities	
(A) Matanuska-Susitna Borough (deep water port and road upgrade)	709,913
(B) Aleutians East Borough/False Pass (small boat harbor)	157,667
(C) City of Valdez (harbor renovations)	207,850
(D) Aleutians East Borough/Akutan (small boat harbor)	274,668
(E) Fairbanks North Star Borough (Eielson AFB Schools, major maintenance and upgrades)	332,955
(F) City of Unalaska (Little South America (LSA) Harbor)	367,895
(3) Alaska Energy Authority	
(A) Kodiak Electric Association (Nyman combined cycle cogeneration plant)	943,676
(B) Copper Valley Electric Association (cogeneration projects)	351,180

Subsection (e) appropriates $4.6 million to various state agencies for reimbursement of municipal (and other public entity) debt service on projects authorized in Chapter 115, SLA 2002 (HB 528). The project list is identical to the FY17 list, but debt reimbursements for individual projects differ slightly from FY17 and the total appropriation is about $64,000 lower than in FY17.

(f) The amount necessary for payment of lease payments and trustee fees relating to certificates of participation issued for real property for the fiscal year ending June 30, 2018, estimated to be $2,892,150, is appropriated from the general fund to the state bond committee for that purpose for the fiscal year ending June 30, 2018.

Subsection (f) appropriates $2.9 million for trustee fees and to make payments on Certificates of Participation (COPs) for the Alaska Native Medical Center housing project [authorized in Chapter 63, SLA 2013, (SB 88)].

Legislative Fiscal Analyst Comment: The legislature appropriated $24 million in FY12 for defeasance of certificates of participation. A veto allowed full defeasance only for the Alaska Psychiatric Institute and the Seafood and Food Safety Lab, with partial defeasance of the Fairbanks Virology Lab. The last payment for the Virology Lab was included in the FY16 budget. The only outstanding COP is the Alaska Native Medical Center project, which was added in FY14.

(g) The sum of $3,303,500 is appropriated from the general fund to the Department of Administration for the purpose of paying the obligation of the Linny Pacillo Parking Garage in Anchorage to the Alaska Housing Finance Corporation for the fiscal year ending June 30, 2018.

Subsection (g) appropriates $3.3 million for a lease-purchase obligation associated with a downtown Anchorage parking garage. AHFC purchased the Robert B. Atwood Building and existing parking for approximately $39 million in cash and then issued corporate general obligation bonds with debt service offset by lease payments from the State. The State now owns the Atwood building (the $3.4 million annual payments were completed in FY17).

(h) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2018:

A total of $89.8 million state funds ($85 million general funds) and $4.8 million federal funds are appropriated for debt service on general obligation bonds (see table below). Comparable FY17 numbers are $77.8 million general funds, and $4.8 million federal receipts.

Summary of Debt Service on Outstanding General Obligation Bonds					
Authorization Year	**Bond Issue**	**Subsection**	**State Funds Debt Service**	**Federal Funds Debt Service**	**Total Debt Service**
2008	2009A	1	10,000	-	10,000
2008	2009A	2	7,990,300	-	7,990,300
2010	2010A & B	3,4,5	4,737,080	4,421,761	9,158,841
2002	2012A	6,7,8	28,876,000	-	28,876,000
2010	2013A	9,10	33,180	427,658	460,838
2010	2013B	11,12	16,169,000	-	16,169,000
2010	2015B	13	4,721,250	-	4,721,250
2010	2016A & B	14,15,16	22,327,370	-	22,327,370
	Trustee Fees	17	3,000	-	3,000
	Arbitrage Rebate	18	100,000	-	100,000
	Total		**84,967,180**	**4,849,419**	**89,816,599**

(1) the sum of $10,000 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2009A general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A;

(2) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2009A, after the payment made in (1) of this subsection, estimated to be $7,990,300, from the general fund for that purpose;

Series 2009A general obligation bonds were authorized by voters in 2008 for road construction projects.

Legislative Fiscal Analyst Comment: Of the $315 million bond issue authorized by voters in 2008, $150 million will not be issued. In FY12, the legislature changed the fund source for $150 million of capital projects from GO bond proceeds to general funds. The authority to issue bonds was reduced by $150 million at the same time.

(3) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B, estimated to be $2,194,004, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bond credit payments due on the series 2010A general obligation bonds;

(4) The amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B, estimated to be $2,227,757, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Qualified School Construction Bond interest subsidy payments due on the series 2010B general obligation bonds;

(5) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2010A and 2010B, after payments made in

(3) and (4) of this subsection, estimated to be $4,737,080, from the general fund for that purpose;

Series 2010A, 2010B, and 2010C general obligation bonds were issued as authorized by voters in 2010 for educational facilities.

Legislative Fiscal Analyst Comment: The 2010 general election authorized issuance of $397 million in bonds to finance educational facilities. The Department of Revenue issued $200 million of bonds in three series in 2010, taking advantage of federal stimulus programs. Series A were issued using Build America Bonds (receiving an original 35% federal subsidy on interest expense); Series B were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of nearly 100%); and Series C were issued as standard tax exempt bonds (paid off in 2015). All authorized bonds are not sold at the same time because IRS rules (for tax exempt status) require complete expenditure of bond proceeds within three years of bond issuance. Bonds are issued in specific series as cash is needed for projects. Sequestration subsequently reduced the federal reimbursement rates on the Series A and Series B bonds, reducing the effective subsidy to near 32.5% and 93%, respectively.

(6) the sum of $2,200 from the State of Alaska general obligation bonds, series 2012A bond issue premium, interest earnings, and accrued interest held in the debt service fund of the series 2012A bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A;

(7) the sum of $37,000 from the Alaska debt retirement fund (AS 37.15.011) for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A;

(8) the amount necessary, estimated to be $28,836,800, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2012A, from the general fund for that purpose;

Series 2012 bonds are refinanced 2003 bonds:

- 2003A general obligation bonds were authorized by voters in 2002 for construction of schools and university facilities ($236.8 million) and for transportation projects ($124 million); and
- Series 2003B general obligation bonds were authorized by voters in 2002 for road construction ($102.8 million).

Legislative Fiscal Analyst Comment: Although the 2003B bonds were issued with a general obligation pledge by the State, they are more appropriately referred to as GARVEE bonds. The majority of the debt service was paid using eligible federal-aid highway formula funding coupled with a state matching component derived from investment earnings on the borrowed money prior to expenditure.

The Alaska Debt Retirement Fund (subsection 7) has not been used for several years. The fund once served as a reservoir that gathered money from several sources in order to make debt service payments. In a review of various fund balances, the Office of Management and Budget discovered a small balance in the debt retirement fund.

(9) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A, estimated to be $427,658, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Qualified School Construction Bond interest subsidy payments due on the series 2013A general obligation bonds;

(10) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013A, after payments made in (9) of this subsection, estimated to be $33,180, from the general fund for that purpose;

(11) the sum of $66,000 from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2013B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B;

(12) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2013B, after the payment made in (11) of this subsection, estimated to be $16,103,000, from the general fund for that purpose;

The remaining 2010 authorization of $197 million was used when 2013A and 2013B bonds were sold. Series 2013A and 2013B general obligation bonds were authorized by voters in 2010 for educational facilities.

Legislative Fiscal Analyst Comment: The Department of Revenue issued two series of bonds to fund the balance of the 2010 Act and take advantage of the State's remaining Qualified School Construction Bond allocation. Series A were issued as Qualified School Construction Bonds (receiving a federal subsidy on interest expense of 100%); and Series B were issued as standard tax exempt bonds. All authorized bonds are sold at this time. Sequestration subsequently reduced the federal reimbursement rates on the Series A by 7.2 points, reducing the effective subsidy to about 93%.

(13) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2015B, estimated to be $4,721,250, from the general fund for that purpose;

Subsection 13 appropriates an estimated $4.7 million from the general fund for payment of debt service on series 2015B Bonds. The 2015B bonds refinanced a portion of the 2009A bonds for savings; increased 2015B debt service is more than offset by reductions to 2009A debt service.

(14) the sum of $1,900 from the State of Alaska general obligation bonds, series 2016A and 2016B bond issue premium, interest earnings, and accrued interest held in the debt service fund of the series 2016A and 2016B bonds for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A and 2016B;

(15) the sum of $226,000, from the investment earnings on the bond proceeds deposited in the capital project funds for the series 2016B general obligation bonds, for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A and 2016B;

(16) the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds, series 2016A and 2016B, after the payments made in (14) and (15) of this subsection, estimated to be $22,099,470, from the general fund for that purpose;

Subsections 14, 15, and 16 appropriate an estimated $22.3 million ($22.1 from the general fund) for the payment of debt service on new series 2016A and 2016B Bonds.

Legislative Fiscal Analyst Comment: On January 5, 2016, the State Bond Committee authorized the issuance of 2016A General Obligation Bonds in the amount of up to $160 million to refinance Series 2015A Bond Anticipation Notes (BANs), and a 2016B General Obligation (GO) Bond Anticipation Note to fund up to $150 million for additional costs of the 2012 Transportation Act projects.

The 2016B GO BAN will be the fourth time that the State will have utilized a BAN for the 2012 Act. The BAN program has been used due to the uncertainty and often delayed project expenditure expectations on transportation projects, thereby avoiding the cost of having higher interest, long-dated borrowed funds idle in the project fund, and complying with IRS project expenditure requirements.

(17) the amount necessary for payment of trustee fees on outstanding State of Alaska general obligation bonds, series 2009A, 2010A, 2010B, 2012A, 2013A, 2013B, 2015B, 2016A, and 2016B, estimated to be $3,000, from the general fund for that purpose;

Subsection 17 appropriates an estimated $3,000 for trustee fees on all outstanding GO Bonds. The amount for FY18 eliminates fees for 2015A bonds and adds fees for the 2016A and 2016B bond series.

Legislative Fiscal Analyst Comment: These fees have previously been included in the debt service appropriation for each series of bonds. Trustee fees have been separated from other costs of issuing debt because they are annual costs that last for the life of the bonds. Most other costs of issuing debt are one-time costs paid at closing. That may change if rating agencies are successful in their effort to make their fees annual rather than one time.

(18) the amount necessary for the purpose of authorizing payment to the United States Treasury for arbitrage rebate on outstanding State of Alaska general obligation bonds, estimated to be $100,000, from the general fund for that purpose;

Subsection 18 appropriates money that must be remitted to the federal government when earnings on the proceeds of tax-exempt bonds exceed interest costs. This appropriation applies primarily to the extraordinarily low interest rate 2013C Bond Anticipation Notes. The provision is also likely to apply to the 2014A Qualified School Construction Bonds.

(19) if the proceeds of state general obligation bonds issued are temporarily insufficient to cover costs incurred on projects approved for funding with these proceeds, the amount necessary to prevent this cash deficiency, from the general fund, contingent on repayment to the general fund as soon as additional state general obligation bond proceeds have been received by the state; and

Subsection 19 is intended to prevent construction delays by permitting short-term borrowing from the general fund.

(20) if the amount necessary for payment of debt service and accrued interest on outstanding State of Alaska general obligation bonds exceeds the amounts appropriated in this subsection, the additional amount necessary to pay the obligations, from the general fund for that purpose.

> **Legislative Fiscal Analyst Comment:** This is a safety measure to ensure that the State can meet its general obligation pledge if unforeseen circumstances or miscalculations leave the appropriations in this section short of debt service requirements.

(i) The following amounts are appropriated to the state bond committee from the specified sources, and for the stated purposes, for the fiscal year ending June 30, 2018:

(1) the amount necessary for debt service on outstanding international airports revenue bonds, estimated to be $5,200,000, from the collection of passenger facility charges approved by the Federal Aviation Administration at the Alaska international airports system;

(2) the amount necessary for debt service and trustee fees on outstanding international airports revenue bonds, estimated to be $398,820, from the amount received from the United States Treasury as a result of the American Recovery and Reinvestment Act of 2009, Build America Bonds federal interest subsidy payments due on the series 2010D general airport revenue bonds; and

(3) the amount necessary for payment of debt service and trustee fees on outstanding international airports revenue bonds, after payments made in (1) and (2) of this subsection, estimated to be $39,819,394, from the International Airports Revenue Fund (AS 37.15.430(a)) for that purpose.;

Subsection (i) appropriates funding for payment of debt service and fees on outstanding international airport revenue bonds.

> **Legislative Fiscal Analyst Comment:** The Alaska International Airport System and the State Bond Committee sold series 2016A and 2016C bonds on January 13, 2016 and series 2016B and 2016D bonds on January 28, 2016 to refinance $258 million of outstanding revenue bonds (Series 1999A, 1999C, 2003B, 2006A, 2006B, 2006D, and 2009A) for the dual goals of achieving $17.14 million of present value savings and lowering annual debt service by extending the amortization of the bonds by four years. The System plans to pay for future cash defeasances of approximately $57 million between FY17 and FY19.
>
> The transaction is the culmination of a restructuring plan put in place in 2010 to lower debt service of the AIAS from approximately $49.5 million to $30 million annually to maintain the System's competitive advantage in the international cargo market and keep the cost per enplaned passenger as low as possible. Following the transaction, cumulative debt service is approximately $29.7 million per year after FY17. The refunding bonds received the same ratings from Fitch and Moody's as previous airport bonds - A+/ Stable and A1/Stable, respectively.

(j) The amount necessary for payment of obligations and fees for the Goose Creek Correctional Center, estimated to be $16,376,900, is appropriated from the general fund to the Department of Administration for that purpose for the fiscal year ending June 30, 2018.

Subsection (j) appropriates funds to pay lease costs for the Goose Creek Correctional Center. The Mat-Su Borough issued bonds for the Goose Creek Correctional Center, which the State leases.

Legislative Fiscal Analyst Comment: In common language, the contract with the Mat-Su Borough is a lease, but terms of the contracts are such that the Governmental Accounting Standards Board's (GASB) rule #34 classifies them as capital leases. Further, the State's future lease payments were securitized in a Matanuska Lease Revenue Bond issuance that was authorized by law. This means that a default on lease payments could affect the State's credit rating. Because of the potential impact on credit rating, the obligation is categorized as "subject to appropriation" debt.

(k) The amount necessary for state aid for costs of school construction under AS 14.11.100, estimated to be $115,956,587, is appropriated to the Department of Education and Early Development for the fiscal year ending June 30, 2018, from the following sources:

(1) $18,600,000 from the School Fund (AS 43.50.140);

(2) the amount necessary, after the appropriation made in (1) of this subsection, estimated to be $97,356,587, from the general fund.

Subsection (k) appropriates funds for municipal school debt reimbursement. The amount of this appropriation is the projected need for full reimbursement. AS 14.11.100 authorizes the State to reimburse municipalities for selected bonds issued for school construction (from 60-90% of principal and interest depending on the authorization). The general fund cost is about $6.3 million below the FY17 pre-veto cost. The Governor vetoed $30.5 million from the FY17 appropriation.

Funding: Per the DOR Fall 2016 Revenue Sources Book, FY18 cigarette tax collections (School Fund) are projected at $18.6 million, down from $19.9 million in FY16 and $19.3 million (projected) in FY17. As cigarette tax revenues decrease, the general fund portion of school debt reimbursement increases.

(l) The amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) during fiscal year ending June 30, 2018, estimated to be $6,211,000, are appropriated to the state bond committee for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds, for early redemption of those bonds.

Subsection (l) appropriates the majority of a surcharge levied on sport fish licenses authorized under Chapter 94, SLA 2005—and appropriated to the bond redemption fund in section 21(j) and (k) of this bill—for payment of sport fish hatchery debt. Annually, up to $500,000 of the surcharge may be retained for sport fish operations. That amount is appropriated to the Department of Fish and Game in section 11(b).

The appropriation in subsection (l) typically exceeds the required debt service payments due on the bonds, allowing the bonds to be paid off ahead of schedule.

Legislative Fiscal Analyst Recommendation: Placing an "and" in the final clause would clarify that the appropriation is intended to refer to both scheduled payments and "early redemption" payments.

New Subsection

(m) Section 26(a), ch. 17, SLA 2012, is amended to read:

(a) The amount necessary to pay expenses incident to the sale and issuance of general obligation bonds for transportation projects, estimated to be $3,559,200, is appropriated from the 2012 state transportation project fund to the Department of Revenue, state bond committee, for the fiscal years ending June 30, 2013, June 30, 2014, June 30, 2015, [AND] June 30, 2016<u>, June 30, 2017, June 30, 2018, and June 30, 2019</u>.

Subsection (m) is an attempt to reduce FY18 appropriations by extending the lapse date of a FY13 multi-year appropriation. Unfortunately, the FY13 appropriation terminated in FY16. The appropriation cannot be extended because FY16 is closed for accounting purposes and the appropriation has lapsed.

Legislative Fiscal Analyst Comment: Assuming the fund has an available balance, a new appropriation for FY17, FY18, and FY19 would serve the same purpose.

Legislative Fiscal Analyst Recommendation: Delete subsection (m) or replace it with language other than a lapse extension.

Sec. 20. FEDERAL AND OTHER PROGRAM RECEIPTS. (a) Federal receipts, designated program receipts under AS 37.05.146(b)(3), information services fund program receipts under AS 44.21.045(b), Exxon Valdez oil spill trust receipts under AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund under AS 19.65.060(a), receipts of the University of Alaska under AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations under AS 37.05.146(c)(21), and receipts of the Alaska Aerospace Corporation, that are received during the fiscal year ending June 30, 2018, and that exceed the amounts appropriated by this Act, are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

Subsection (a) provides open-ended appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee, the Governor can increase authorization for listed fund sources without the approval of the committee.

Funding: Although requests for approval to spend additional receipts will almost certainly be received, there is no way to determine where the increases will be, how much they will be, or what fund sources would be appropriate.

Legislative Fiscal Analyst Recommendation: Delete the reference to receipts of the Alaska Aerospace Corporation; unanticipated receipts of the corporation are appropriated in section 5. Language referring to test fisheries may also be unnecessary.

(b) If federal or other program receipts under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2018, exceed the amounts appropriated by this Act, the appropriations from state funds for the affected program shall be reduced by the excess if the reductions are consistent with applicable federal statutes.

Subsection (b) reduces state authorization when unanticipated money is received for projects funded with state funds and when federal statutes allow a reduction of state funds. There is no formal process for tracking potential reductions.

(c) If federal or other program receipts under AS 37.05.146 and AS 44.21.045(b) that are received during the fiscal year ending June 30, 2018, fall short of the amounts appropriated by this Act, the affected appropriation is reduced by the amount of the shortfall in receipts.

Subsection (c) automatically limits authorization of federal and other receipts to the amount actually received.

Sec. 21. FUND CAPITALIZATION. (a) The portions of the fees listed in this subsection that are collected during the fiscal year ending June 30, 2018, estimated to be $23,900, are appropriated to the Alaska children's trust grant account (AS 37.14.205(a)):

(1) fees collected under AS 18.50.225, less the cost of supplies, for the issuance of heirloom birth certificates;

(2) fees collected under AS 18.50.272, less the cost of supplies, for the issuance of heirloom marriage certificates;

(3) fees collected under AS 28.10.421(d) for the issuance of special request Alaska children's trust license plates, less the cost of issuing the license plates.

Subsection (a) appropriates (to the Alaska Children's Trust grant account) net receipts collected during FY18 from sales of heirloom birth certificates, heirloom marriage certificates, and Trust license plates.

Legislative Fiscal Analyst Comment: Before FY12, these receipts were deposited to principal; the Children’s Trust board may now spend from the grant account without further appropriation.

The Alaska Children's Trust was created by Chapter 19, SLA 1988. The legislature appropriated $6 million from the investment loss trust fund to the principal of the trust in Chapter 123, SLA 1996. The trust was established to provide a continuing source of revenue for grants to community-based programs for the prevention of child abuse and neglect. During recent fiscal years, the principal of the endowment was granted to the Friends of the Children's Trust.

(b) The amount of federal receipts received for disaster relief during the fiscal year ending June 30, 2017, estimated to be $9,000,000, is appropriated to the disaster relief fund (AS 26.23.300(a)).

Subsection (b) appropriates federal receipts for disaster relief to the Disaster Relief Fund. The Governor needs no specific appropriations to spend money deposited in the Disaster Relief Fund; money can be spent upon declaration of a disaster.

Funding: A $9 million estimate for federal receipts for disaster relief has been used for several years.

(c) The sum of $2,000,000 is appropriated from the general fund to the disaster relief fund (AS 26.23.300(a)).

Subsection (c) capitalizes the Disaster Relief Fund with $2 million of general funds.

Legislative Fiscal Analyst Comment: Disasters—and their costs—are unpredictable. However, note that appropriating too little to the fund will prompt a supplemental funding request in the future. An estimated balance of the fund was unavailable at the time of publication.

(d) The amount of municipal bond bank receipts determined under AS 44.85.270(h) to be available for transfer by the Alaska Municipal Bond Bank Authority for the fiscal year ending June 30, 2017, estimated to be $0, is appropriated to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

Subsection (d) appropriates earnings of the Bond Bank to its earnings reserve fund.

(e) If the Alaska Municipal Bond Bank Authority must draw on the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)) because of a default by a borrower, an amount equal to the amount drawn from the reserve is appropriated from the general fund to the Alaska municipal bond bank authority reserve fund (AS 44.85.270(a)).

Subsection (e) provides a moral obligation pledge of general funds if a default causes a draw on reserves of the bank. The intent of this section is to increase the credit rating of the bank and reduce the cost of borrowing money.

Funding: The fiscal impact of this section is estimated to be zero.

(f) The amount of federal receipts awarded or received for capitalization of the Alaska clean water fund during the fiscal year ending June 30, 2018, less the amount expended for administering the loan fund and other eligible activities, estimated to be $7,657,920, is appropriated from federal receipts to the Alaska clean water fund (AS 46.03.032(a)).

(g) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska clean water fund during the fiscal year ending June 30, 2018, estimated to be $1,595,400, is appropriated from Alaska clean water fund revenue bond receipts to the Alaska clean water fund (AS46.03.032(a)).

(h) The amount of federal receipts awarded or received for capitalization of the Alaska drinking water fund during the fiscal year ending June 30, 2018, less the amount expended for administering the loan fund and other eligible activities, estimated to be $5,735,280, is appropriated from federal receipts to the Alaska drinking water fund (AS 46.03.036(a)).

(i) The amount necessary to match federal receipts awarded or received for capitalization of the Alaska drinking water fund during the fiscal year ending June 30, 2018, estimated to be $1,662,400, is appropriated from Alaska drinking water fund revenue bond receipts to the Alaska drinking water fund (AS 46.03.036(a)).

Subsections (f), (g), (h) and (i) provide money to develop sewer and water systems in Alaska communities through revolving loan programs. The State typically issues short-term bonds that are repaid with earnings from the loan programs, and uses the bond proceeds to match federal money. See sections 19(c) and (d) for further discussion.

Legislative Fiscal Analyst Comment: In FY16, the legislature replaced specific appropriation amounts with open-ended language.

(j) The amount required for payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2018, estimated to be $4,216,000, is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for that purpose.

(k) After the appropriations made in sec. 11(b) of this Act and (j) of this section, the remaining balance of the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100), estimated to be $1,995,000, is appropriated from the Alaska sport fishing enterprise account (AS 16.05.130(e)) in the fish and game fund (AS 16.05.100) to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for early redemption of outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2018.

(l) If the amounts appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) in (k) of this section are less than the amount required for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2018, federal receipts equal to the lesser of $102,000 or the deficiency balance, estimated to be $0, are appropriated to the Alaska fish and game revenue bond redemption fund (AS 37.15.770) for the payment of debt service, accrued interest, and trustee fees on outstanding sport fish hatchery revenue bonds for the fiscal year ending June 30, 2018.

Several subsections appropriate funding to pay Sport Fish Hatcheries debt service, trustees fees and early redemption of the bonds. The following outlines the mechanics of the surcharge/debt service:

(1) All proceeds from a surcharge levied on sport fishing licenses are deposited into the enterprise account within the Fish and Game Fund (F&G Fund). At present, temporarily holding money associated with the revenue bonds is the only purpose of the account.

(2) **Subsection 21(j)** transfers the amount required to make the minimum required debt service payments from the enterprise account to the bond redemption account.

(3) **Subsection 19(l)** appropriates the amount necessary (estimated to be $6.2 million) from the Alaska Fish and Game Revenue Bond Redemption Fund to the State Bond Committee to pay the minimum debt service, trustee fees, and for early redemption of the sport fish hatchery bonds.

(4) Once the amount required to make the minimum debt service payment is transferred, **subsection 11(b)** appropriates the balance of the enterprise account (not to exceed $500,000) from the enterprise account to Sport Fish so it can be used for sport fish operations.

(5) **Subsection 21(k)** transfers any remaining balance in the enterprise account (including earnings) to the bond redemption account to be used for early redemption of the bonds.

(6) If proceeds from the surcharge are insufficient to make the required debt service payments, **subsection 21(l)** is intended to clarify that the department may use up to $102,000 of current federal operating funding as reimbursement for debt service payments on sport fish revenue bonds.

Funding: Total debt service appropriations are $6.2 million appropriated in subsection 19(l). The FY18 required debt service payment is estimated to be $4.2 million, with an additional $2 million for early redemption of the bonds.

(m) The amount received under AS 18.67.162 as program receipts, estimated to be $125,000, including donations and recoveries of or reimbursement for awards made from the crime victim compensation fund (AS 18.67.162), during the fiscal year ending June 30, 2018, is appropriated to the crime victim compensation fund (AS 18.67.162).

Subsection (m) capitalizes the Crime Victim Compensation Fund with money from donations and recoveries of, or reimbursements for, awards made from the fund. The Violent Crime Compensation Board (in the Department of Administration) may order that compensation (from the fund) be paid to victims of crime (and their dependents) without further appropriation.

Legislative Fiscal Analyst Comment: Chapter 112, SLA 2008 (HB 414) added language to the effect that money appropriated to the fund "may include donations, recoveries of or reimbursements for awards made by the fund, income from the fund, and other program receipts." The language of subsection (m) does not appropriate income from the fund, so income will remain in the general fund.

(n) The sum of $1,422,500 is appropriated from that portion of the dividend fund (AS 43.23.045(a)) that would have been paid to individuals who are not eligible to receive a permanent fund dividend because of a conviction or incarceration under AS 43.23.005(d) to the crime victim compensation fund (AS 18.67.162) for the purposes of the crime victim compensation fund (AS 18.67.162).

Subsection (n) capitalizes the Crime Victim Compensation Fund (CVCF) with a portion of what is commonly known as "PFD Criminal Funds." The Violent Crime Compensation Board (in the Department of Administration) may order that compensation (from the fund) be paid to victims of crime (and their dependents) without further appropriation.

Legislative Fiscal Analyst Comment: Beginning in FY12, PFD Criminal Funds were concentrated in only two appropriations—the Crime Victim Compensation Fund and Inmate Health Care in the Department of Corrections. The intent was to minimize the many confusing fund source changes (swapping GF and PFD Criminal Funds) caused by year-to-year volatility in the amount of funding available. The Department of Corrections was intended to be the only agency with a variable amount of PFD Criminal Funds.

PFD Criminal Funds are exchanged dollar-for-dollar with general funds in the Department of Corrections. Every dollar appropriated to the Crime Victim Compensation Fund reduces the amount of PFD Criminal Funds that is available to the Department of Corrections, thereby increasing the general fund appropriation to the Department of Corrections.

The legislature has discretion in choosing an amount to appropriate to the CVCF; there is no statutory direction. The amount appropriated for this purpose over the past few years has been:

- FY13: $1,798,000
- FY14: $1,116,400
- FY15: $1,502,700
- FY16: $1,510,000
- FY17: $1,411,400

The Governor's request of $1,422,500 is $11,100 more than was deposited in FY17 into the CVCF, despite a reduction of approximately 50% in Permanent Fund dividend payments.

Legislative Fiscal Analyst Recommendation: Eliminate the capitalization of the CVCF by deleting subsections (m) and (n). Instead, appropriate the General Fund Program Receipts and PFD Criminal Funds directly to the Violent Crime Compensation Board in section 1. Add language allowing unexpended and unobligated balances to be carried forward.

(o) An amount equal to the interest earned on amounts in the election fund required by the federal Help America Vote Act, estimated to be $35,000, is appropriated to the election fund for use in accordance with 42 U.S.C. 15404(b)(2).

Subsection (o) allows the Election Fund to retain interest earned. The purpose of the fund is to provide states with money for election administration improvements (primarily equipment and accessibility aids).

(p) The amount calculated to be equal to 15 percent of all revenue from taxes levied by AS 43.55.011 that is not required to be deposited in the constitutional budget reserve fund established in art. IX, sec. 17(a), Constitution of the State of Alaska, estimated to be $74,000,000, is appropriated from the general fund to the oil and gas tax credit fund (AS 43.55.028).

Subsection (p) updates the estimate from the FY17 operating budget, but is otherwise identical.

Legislative Fiscal Analyst Comment: Subsection (p) appropriates the minimum allowed by statute to purchase tax credits.

In FY18, the Department of Revenue projects that $961 million in credits will be available for purchase, including $646 million carried forward due to past appropriations and vetoes. The Department of Revenue expects an additional $100 million of purchasable credits to be sold to and used by companies with tax liabilities. If those projections are accurate, the fund will be about $887 million short of being able to purchase earned credits in FY18. Unpurchased credits carry into future years, or can be sold to other taxpayers with tax liabilities.

The language in the Governor's budget for this item reflects the statutory formula for the minimum deposit under AS 43.55.028 if the oil price forecast is less than $60 per barrel. The FY18 forecast is $54 per barrel. If the Spring 2017 revenue forecast increases the price forecast to $60 or higher, the statutory formula would reduce the deposit to 10% of production tax revenue, rather than 15%.

(q) The sum of $1,176,466,600 is appropriated from the general fund to the public education fund (AS 14.17.300) for state aid for public school funding for the fiscal year ending June 30, 2018.

(r) If the appropriation made in (q) of this section is insufficient to provide the full amount of state aid calculated under the school funding formula under AS 14.17.410(b), the amount necessary to fund the total amount calculated under AS 14.17.410(b) is appropriated from the general fund to the public education fund (AS 14.17.300).

Subsections (q) and (r) replace the previous year's language, which read, "the amount necessary to fund the total amount for the fiscal year ending June 30, 2017, of state aid calculated under the public school funding formula under AS 14.17.410(b), estimated to be $1,163,984,500, is appropriated from the general fund to the public education fund (AS 14.17.300)."

Subsection (q) appropriates $1.176 billion to the public education fund (PEF) for the foundation formula. **Subsection (r)** appropriates any amount above that needed to fully pay out the formula.

Legislative Fiscal Analyst Comment: This appropriation is intended to fully fund the foundation formula for FY18 K-12 education. However, the language doing so is oddly structured. If the amount needed is less than $1.176 billion, money will remain in the PEF at the end of the year.

Legislative Fiscal Analyst Recommendation: Revert to language used in FY17.

(s) The sum of $72,619,800 is appropriated from the general fund to the public education fund (AS 14.17.300) to fund transportation of students under AS 14.09.010 for the fiscal year ending June 30, 2018.

Legislative Fiscal Analyst Comment: This appropriation funds part of the statutory formula for pupil transportation, but not all of it. The department estimates that fully funding the formula would cost $79 million. There is no statutory provision for prorating funding for pupil transportation.

(t) The sum of $40,640,000 is appropriated from the general fund to the regional educational attendance area and small municipal school district school fund (AS 14.11.030(a)).

Subsection (t) appropriates $40.6 million to the Regional Educational Attendance Area and Small Municipal School District (REAA) School Fund, which was created to assist in funding school construction projects in regional education attendance areas. Per the consent decree and settlement agreement of *Kasayulie vs. State of Alaska*, the creation of the fund and adoption of the funding mechanism set forth in AS 14.11.025 provides a remedy for perceived constitutional violations.

Legislative Fiscal Analyst Comment: Although created in Chapter 93, SLA 2010, this fund did not become effective until July 1, 2012 (FY13). The enabling language is similar to that of the School Construction Fund (AS 14.11.005) and the Major Maintenance Grant Fund (AS 14.11.007), with the exception that statutory guidelines establish annual appropriations to the REAA Fund. In addition, the School Construction Fund and the Major Maintenance Grant Fund have matching requirements and the REAA Fund does not.

The distinction may be important. Because the legislature's practice is to limit fund transfers as much as possible in order to encourage budget clarity, the appropriations for school maintenance and construction appear as direct general fund appropriations for projects rather than as appropriations to a fund and then from a fund. The unique position of the REAA Fund as a court remedy may make that simplification less than ideal for funding rural school construction. Ideally, there should be a way to identify a fund balance if appropriations for REAA school construction in any year are less than guidelines suggest.

The consent decree for the *Kasayulie vs. State* case required the Governor to include funding for two REAA schools in his FY13 capital budget. Both the Emmonak school ($36.1 million) and the Koliganek school ($24.9 million) were included. Both appropriations eventually used general funds and showed as allocations under the school construction grant fund. FY13 appropriations for rural school construction exceeded the $35.5 million that met the guidelines of AS 14.11.025.

The REAA School Fund was used directly to pay for FY14 school construction in Nightmute ($33 million) and Kuinerramiut ($13.2 million). In addition, $25 million was appropriated from the REAA Fund for the Kwethluk School.

Kwethluk received an additional $31.5 million in FY15. The FY15 budget also included $9 million from the REAA fund for a school in St. Mary's School District (plus an additional $2.8 million UGF).

In FY16, $38.8 million was deposited into the REAA School Fund and there were no appropriations from the fund, leaving a fund balance of $38.7 million. In FY17, $31.2 million was deposited into the fund (after a veto of $10.4 million by the Governor), and $7.1 million was appropriated to the Bethel Regional High School Central Kitchen and Multipurpose Addition, leaving a fund balance of $62.8 million.

The Governor's request proposes depositing $40.6 million into the fund (per the statutory formula), bringing the balance of the fund to approximately $103.4 million. The Governor requested no FY18 appropriations from the REAA Fund. Per AS 14.11.030(b), the fund balance in excess of $70 million will lapse to the general fund.

The Governor's FY18 budget places the REAA Fund appropriation in the Fund Capitalizations section rather than in the Fund Transfers section.

Legislative Fiscal Analyst Recommendation: Consider

1. moving the REAA fund appropriation to the Fund Transfers section
2. modifying statute to say the balance of the fund is "available for appropriation" rather than "available for expenditure" and
3. adding (to the capital bill) appropriations for specific projects.

As is, the appropriation allows Department of Education and Early Development to determine the amount and timing of expenditures for rural schools. This erodes the legislature's power of appropriation.

Sec. 22. FUND TRANSFERS. (a) The federal funds received by the state under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 not appropriated for grants under AS 37.05.530(d) are appropriated as follows:

(1) to the principal of the Alaska permanent fund (art. IX, sec. 15, Constitution of the State of Alaska) and the public school trust fund (AS 37.14.110(a)), according to AS 37.05.530(g)(1) and (2); and

(2) to the principal of the Alaska permanent fund (art. IX, sec. 15, Constitution of the State of Alaska), the public school trust fund (AS 37.14.110(a)), and the power cost equalization and rural electric capitalization fund (AS 42.45.100(a)), according to AS 37.05.530(g)(3).

Subsection (a) appropriates the lapsing balance of NPR-A grants [per AS 37.05.530(g)]. No lapsing balance is anticipated.

Funding: The estimated fiscal impact of this section is zero.

Legislative Fiscal Analyst Recommendation: Remaining balances should not be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer active. The intent of AS 37.05.530(g)(3) would be most closely followed by appropriating remaining balances to the Power Cost Equalization endowment fund [AS 42.45.070(a)]. AS 37.05.530(g) should also be revised. As noted, no lapsing balance is anticipated.

(b) The loan origination fees collected by the Alaska Commission on Postsecondary Education for the fiscal year ending June 30, 2017, are appropriated to the origination fee account (AS 14.43.120(u)) within the education loan fund (AS 14.42.210(a)) of the Alaska Student Loan Corporation for the purposes specified in AS 14.43.120(u).

Subsection (b) appropriates origination fees charged on student loans to the origination fee account within the student loan fund. The fees are intended to offset loan losses due to death, disability, bankruptcy and default.

Funding: The amount of the loan origination fee is capped by regulation at 5% and set by the corporation. The Alaska Commission on Postsecondary Education set the origination fee at 0% for FY17, and has no plans to introduce a fee in FY18. Because the appropriation earmarks money within a fund, there is no impact on state expenditures.

Legislative Fiscal Analyst Recommendation: The fiscal year ending should be changed to June 30, 2018.

(c) The following amounts are appropriated to the oil and hazardous substance release prevention account (AS 46.08.010(a)(1)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010(a)) from the sources indicated:

(1) the balance of the oil and hazardous substance release prevention mitigation account (AS 46.08.020(b)) in the general fund on July 1, 2017, estimated to be $1,500,000, not otherwise appropriated by this Act;

(2) the amount collected for the fiscal year ending June 30, 2017, estimated to be $6,640,000, from the surcharge levied under AS 43.55.300; and

Subsection (c)(1) and (2) appropriate (to the Oil and Hazardous Substance Release Prevention Account) the balance of the Release Prevention Mitigation Account and the FY17 collections from the four cent per barrel surcharge on oil produced in the State. Amendments effective April 1, 2006 changed the per barrel surcharge from $0.03 to $0.04.

(3) the amount collected for the fiscal year ending June 30, 2018, estimated to be $7,200,000, from the surcharge levied under AS 43.40.005.

Subsection (c)(3) appropriates revenue collected by the motor fuel surcharge to the Oil and Hazardous Substance Release Prevention Account.

(d) The following amounts are appropriated to the oil and hazardous substance release response account (AS 46.08.010(a)(2)) in the oil and hazardous substance release prevention and response fund (AS 46.08.010(a)) from the following sources:

(1) the balance of the oil and hazardous substance release response mitigation account (AS 46.08.025(b)) in the general fund on July 1, 2017, estimated to be $700,000, not otherwise appropriated by this Act; and

(2) the amount collected for the fiscal year ending June 30, 2017, from the surcharge levied under AS 43.55.201, estimated to be $1,660,000.

Subsection (d) appropriates (to the Oil and Hazardous Substance Release Response Account) the balance of the Release Response Mitigation Account and the FY17 collections from the $0.01 per barrel surcharge on oil produced in the State. Amendments effective April 1, 2006 changed the per barrel surcharge from $0.02 to $0.01.

Legislative Fiscal Analyst Comment: Per AS 43.55.221(d), the surcharge is suspended when the balance of the response account exceeds $50 million. The Commissioner of the Department of Revenue reported that the surcharge was suspended effective January 1,

2013. The surcharge was re-imposed effective July 1, 2013, and remains in place today. In the report for the quarter ending September 30, 2016, the balance had increased to \$47.8 million. The fund is not expected to exceed \$50 million in FY18.

(e) The unexpended and unobligated balance on June 30, 2017, estimated to be \$646,154, of the Alaska clean water administrative income account (AS 46.03.034(a)(2)) in the Alaska clean water administrative fund (AS 46.03.034) is appropriated to the Alaska clean water administrative operating account (AS 46.03.034(a)(1)) in the Alaska clean water administrative fund (AS 46.03.034).

(f) The unexpended and unobligated balance on June 30, 2017, estimated to be \$582,070, of the Alaska drinking water administrative income account (AS 46.03.038(a)(2)) in the Alaska drinking water administrative fund (AS 46.03.038) is appropriated to the Alaska drinking water administrative operating account (AS 46.03.038(a)(1)) in the Alaska drinking water administrative fund (AS 46.03.038).

The Department of Environmental Conservation (DEC) has been collecting a 0.5% fee on all loans made from the clean water and drinking water funds since December 2000. The June 30, 2014 balances of the administrative funds were \$7.3 million and \$4.2 million for the clean water and drinking water administrative funds, respectively.

Beginning in FY15, the department began requesting what is expected to be an annual appropriation from the income account to the operating account, making money available to administer the clean water and drinking water programs. Because the appropriations in **subsections (e) and (f)** simply transfer money within the clean water and drinking water administrative funds, no transactions are shown in the budget. Appropriations from the operating accounts to allocations in DEC appear in section 1.

Funding: The Governor's budget uses \$1,243.2 of Clean Water funds and \$457.6 of Drinking Water funds in FY18. At the end of FY17, the balance of the Clean Water Administrative Fee Account is estimated to be \$6,132.9 and the balance of the Drinking Water Administrative Fee Account is estimated to be \$4,325.1.

(g) The amount equal to the revenue collected from the following sources during the fiscal year ending June 30, 2018, estimated to be \$960,500, is appropriated to the fish and game fund (AS 16.05.100):

(1) range fees collected at shooting ranges operated by the Department of Fish and Game (AS 16.05.050(a)(15)), estimated to be \$500,000;

(2) receipts from the sale of waterfowl conservation stamp limited edition prints (AS 16.05.826(a)), estimated to be \$2,500;

(3) fees collected for sanctuary access permits (AS 16.05.050(a)(15)), estimated to be \$83,000; and

(4) fees collected at boating and angling access sites managed by the Department of Natural Resources, division of parks and outdoor recreation, under a cooperative agreement authorized under AS 16.05.050(a)(6), estimated to be \$375,000.

Subsection (g) appropriates revenue from a variety of sources to the Fish and Game Fund.

Legislative Fiscal Analyst Comment: Because the boating and angling access sites were constructed with F&G Funds, the federal government has indicated that facility user fees must be appropriated to the F&G Fund.

(h) The balance of the mine reclamation trust fund income account (AS 37.14.800(a)) on June 30, 2017, and money deposited in that account during the fiscal year ending June 30, 2018, estimated to be $50,000, are appropriated to the mine reclamation trust fund operating account (AS 37.14.800(a)).

Subsection (h) authorizes a transfer of funds from the income account to the operating account (both within the Mine Reclamation Trust Fund), where it is available to the Department of Natural Resources for mine reclamation activity under AS 37.14.820.

Funding: The agency projects a transfer of approximately $50,000. The authorization to spend will go to the Mining, Land and Water allocation [see section 14(b)].

(i) The vaccine assessment program receipts collected under AS 18.09.220, estimated to be $10,500,000, are appropriated to the vaccine assessment account (AS 18.09.230).

Subsection (i) appropriates $10.5 million of GF/Program Receipts (from vaccine assessments) to the Vaccine Assessment Account. Legislation passed in 2014 [Chapter 30, SLA 2014 (SB 169)] established a statewide immunization program. The purpose of the program is to monitor, purchase, and distribute vaccines to providers approved by the Department of Health and Social Services who agree to provide those vaccines to state residents.

Legislative Fiscal Analyst Comment: The FY18 estimate was reduced from $31.2 million to $10.5 million (a reduction of $20.7 million). The reduction was based on actual collections totaling $9.5 million in FY16.

New Subsection

(j) An amount equal to the interest earned on amounts in the aviation fuel tax account (AS 43.10.010(e)) during the fiscal year ending June 30, 2018, is appropriated to the aviation fuel tax account (AS 43.40.010(e)).

Subsection (j) authorizes the aviation fuel tax account to retain earnings. The amount of interest earned is expected to be negligible. This appropriation is in response to an FAA requirement that all airport revenue (including earnings on revenue) be spent on the airport system.

> **Legislative Fiscal Analyst Comment:** In practice, DOT&PF spends UGF and then makes adjusting journal entries (AJEs) to move expenditures to the aviation fuel tax account as taxes are collected. Because there is never a large balance in the fund (due to these AJEs) the amount of interest earned is minimal.

Sec. 23. RETIREMENT SYSTEM FUNDING.

(a) The following amounts are appropriated to the Department of Administration from the specified sources for deposit in the defined benefit plan account in the public employees' retirement system as an additional state contribution under AS 39.35.280 for the fiscal year ending June 30, 2018:

(1) the sum of $34,718,100 from the general fund;

(2) the sum of $37,852,900 from the Alaska higher education investment fund (AS 37.14.750).

(b) The following amounts are appropriated to the Department of Administration from the specified sources for deposit in the defined benefit plan account in the teachers' retirement system as an additional state contribution under AS 14.25.085 for the fiscal year ending June 30, 2018:

(1) the sum of $91,322,900 from the general fund;

(2) the sum of $20,434,100 from the Alaska higher education investment fund (AS 37.14.750).

The appropriations in **subsections (a) and (b)** are the amounts determined by the State's actuaries to meet required contribution levels for the public employees (PERS) and teachers (TRS) retirement systems.

> **Legislative Fiscal Analyst Comment:** During recent years, Alaska's public retirement systems accrued a multi-billion dollar unfunded liability due to a combination of investment losses, escalating health care costs, modification of actuarial assumptions and capped contribution rates. Beginning in FY06, the State began making direct contributions to retirement systems in order to stabilize employer contribution rates while reducing unfunded liability. The amounts appropriated in subsections (a) and (b) are the amounts of state assistance required to meet FY18 actuary recommended contributions for PERS and TRS.
>
> State assistance costs were over $700 million in FY14 and were projected to exceed $1 billion by FY17. A $3 billion cash infusion—along with legislative changes—in FY15 reduced the need for state assistance to about $216 million in FY17.
>
> In FY17, the legislature appropriated $89.8 million from the Alaska Higher Education Investment Fund to the PERS and TRS State Retirement Payments. It was anticipated that the State's required contribution would decline from FY17 to FY18 by $89.9 million and the use of endowment funds would not be necessary in future years.

The State's required contribution did not decline as much as anticipated. The Governor followed the legislature's lead with his FY18 request to appropriate $58.3 million from the Alaska Higher Education Investment Fund for retirement costs.

Use of the Alaska Higher Education Investment Fund for purposes not designated in statute will endanger the ability of the fund to pay for grants and scholarships.

Legislative Fiscal Analyst Recommendation: If the legislature wishes to continue the grant/scholarship program, the Higher Education Investment Fund should not be used for undesignated purposes.

If the legislature chooses to continue taking money from the grant/scholarship endowment, it would be preferable to transfer money from the endowment to the general fund, and then use general funds to pay retirement costs. This method would show UGF spending levels in the clearest manner possible.

(c) The sum of $5,385,000 is appropriated from the general fund to the Department of Administration for deposit in the defined benefit plan account in the judicial retirement system for the purpose of funding the judicial retirement system under AS 22.25.046 for the fiscal year ending June 30, 2018.

The appropriation in **subsection (c)** is the amount determined by the State's actuaries to meet required contribution levels for the judicial retirement system.

Legislative Fiscal Analyst Comment: In the 2012 session, the legislature appropriated $50 million to eliminate the unfunded liability of the judicial retirement system (thereby eliminating the associated 25-year stream of annual payments to pay off the unfunded liability). The Governor vetoed the appropriation.

Because investment returns have been below expectations, the system continues to build unfunded liability. High normal costs due to generous pension provisions and continued building of unfunded liability lead some to consider adopting a defined contribution plan.

(d) The sum of $835,495 is appropriated from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system for the purpose of funding the Alaska National Guard and Alaska Naval Militia retirement system under AS 26.05.226 for the fiscal year ending June 30, 2018.

The appropriation in **subsection (d)** is the amount determined by the State's actuaries to meet required normal contribution levels of the Alaska National Guard and Alaska Naval Militia Retirement System.

Legislative Fiscal Analyst Comment: The system is unique in that contributions are based on the anticipated cost of annual benefits rather than on a rate applied to current payroll.

The normal cost increased by $38,000 in FY18 (from $797,495 to $835,495).

(e) The sum of $71,736 is appropriated from the general fund to the Department of Military and Veterans' Affairs for deposit in the defined benefit plan account in the Alaska National Guard and Alaska Naval Militia retirement system as an additional state contribution for the purpose of funding past service liability for the Alaska National Guard and Alaska Naval Militia retirement system under AS 26.05.226 for the fiscal year ending June 30, 2018.

Subsection (e) is the amount determined by the State's actuaries to meet required contribution levels for the past service liability of the Alaska National Guard and Alaska Naval Militia Retirement System.

Legislative Fiscal Analyst Comment: During the 2016 legislative session, retirement funding for the Alaska National Guard and Alaska Naval Militia Retirement System was moved from section 1 under the Department of Military and Veterans' Affairs budget to a language section under State Retirement Payments.

The past service cost increased by $2,331 in FY18 (from $69,405 to $71,736).

(f) The sum of $1,881,400 is appropriated from the general fund to the Department of Administration to pay benefit payments to eligible members and survivors of eligible members earned under the elected public officer's retirement system for the fiscal year ending June 30, 2018.

Subsection (f) is the amount determined by the State's actuaries to pay benefits earned under the Elected Public Officer's Retirement System (EPORS).

Legislative Fiscal Analyst Comment: During the 2016 legislative session, retirement funding for EPORS was moved from section 1 under the Department of Administration's budget to a language section under State Retirement Payments.

(g) The sum of $25,000 is appropriated from the general fund to the Department of Administration to pay benefit payments to eligible members and survivors of eligible members earned under the Unlicensed Vessel Personnel Annuity Retirement Plan for the fiscal year ending June 30, 2018.

Subsection (g) is the amount determined by the State's actuaries to pay benefits earned under the Unlicensed Vessel Personnel Annuity Retirement Plan (UVPARP).

Legislative Fiscal Analyst Comment: During the 2016 legislative session, retirement funding for UVPARP was moved from section 1 under the Department of Administration's budget to a language section under State Retirement Payments. The amount of funding for FY18 is $18,700 less than FY17. According to the Department of Administration, this reduction reflects a decline in the number of eligible recipients.

Sec. 24. SALARY AND BENEFIT ADJUSTMENTS. (a) The operating budget appropriations made in sec. 1 of this Act include amounts for salary and benefit adjustments for public officials, officers, and employees of the executive branch, Alaska Court System employees, employees of the legislature, and legislators and to implement the terms for the fiscal year ending June 30, 2018, of the following ongoing collective bargaining agreements:

(1) Alaska Correctional Officers Association, representing the correctional officers unit;

(2) Alaska State Employees Association, for the general government unit;

(3) Alaska Public Employees Association, for the supervisory unit;

(4) Public Employees Local 71, for the labor, trades and crafts unit.

(b) The operating budget appropriations made to the University of Alaska in sec. 1 of this Act include amounts for salary and benefit adjustments for the fiscal year ending June 30, 2018, for university employees who are not members of a collective bargaining unit and to implement the terms for the fiscal year ending June 30, 2018, of the following collective bargaining agreements:

(1) University of Alaska Federation of Teachers (UAFT).

Subsections (a) and (b) appropriate no money; they specify that various salary adjustments are funded with money appropriated in section 1. The list changes from year to year, depending on which employees are affected by salary and benefit adjustments.

(c) If a collective bargaining agreement listed in (a) of this section is not ratified by the membership of the respective collective bargaining unit, the appropriations made in this Act applicable to the collective bargaining unit's agreement are adjusted proportionately by the amount for that collective bargaining agreement, and the corresponding funding source amounts are adjusted accordingly.

(d) If a collective bargaining agreement listed in (b) of this section is not ratified by the membership of the respective collective bargaining unit and approved by the Board of Regents of the University of Alaska, the appropriations made in this Act applicable to the collective bargaining unit's agreement are adjusted proportionately by the amount for that collective bargaining agreement, and the corresponding funding source amounts are adjusted accordingly.

Subsections (c) and (d) appropriate no funding; they ensure that funding is removed from the budget if collective bargaining unit agreements listed in subsections (a) and (b) are not ratified.

Sec. 25. SHARED TAXES AND FEES. (a) The amount necessary to refund to local governments and other entities their share of taxes and fees collected in the listed fiscal years under the following programs is appropriated from the general fund to the

Department of Revenue for payment to local governments and other entities in the fiscal year ending June 30, 2018:

REVENUE SOURCE	FISCAL YEAR COLLECTED	ESTIMATED AMOUNT
Fisheries business tax (AS 43.75)	**2017**	**$21,900,000**
Fishery resource landing tax (AS 43.77)	**2017**	**6,800,000**
Electric and telephone cooperative tax (AS 10.25.570)	**2018**	**4,100,000**
Liquor license fee (AS 04.11)	**2018**	**900,000**
Cost recovery fisheries (AS 16.10.455)	**2018**	**700,000**

Subsection (a) ensures that the Department of Revenue has the authorization to disburse taxes and fees collected on the behalf of local governments to those entities. The concept applies equally to prior year collections (fisheries receipts) and to current year receipts.

Funding: These "pass-through" taxes are excluded from Legislative Finance Division operating budget reports.

(b) The amount necessary, estimated to be $150,000, to refund to local governments their share of an aviation fuel tax or surcharge under AS 43.40 for the fiscal year ending June 30, 2017, is appropriated from the proceeds of the aviation fuel tax or surcharge levied under AS 43.40 to the Department of Revenue for that purpose.

Subsection (b) ensures that the Department of Revenue has the authorization to disburse the local government share of aviation fuel taxes to those entities.

Legislative Fiscal Analyst Comment: Note that the subsection specifically identifies proceeds of the aviation tax as the source of the payments.

The 40% share of aviation tax proceeds retained by the State is dedicated to airport operating and capital expenses. Fund Code 1239 – Aviation Fuel Tax was created in the 2016 session to track budgeted Aviation Fuel Tax revenue.

Funding: These "pass-through" taxes are excluded from Legislative Finance Division operating budget reports.

(c) The amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2017 according to AS 43.52.230(b), estimated to be $16,500,000, is appropriated from the commercial vessel passenger tax account (AS 43.52.230(a)) to the Department of Revenue for payment to the ports of call for the fiscal year ending June 30, 2018.

Subsection (c) appropriates $16.5 million of Commercial Vessel Passenger "Head" Tax receipts to the first seven ports of call.

Funding: These "pass-through" taxes are excluded from Legislative Finance Division reports on the operating bill.

Legislative Fiscal Analyst Comment: The legislature amended the statutes for the Commercial Vessel Passenger Head Tax effective October 31, 2010. The head tax was reduced from $46 to $34.50, with $5 shared with the first seven ports of call (previously five ports) and the Regional Impact Fund was eliminated.

The current allocation of the head tax to ports of call directs almost $25 per passenger to Juneau and Ketchikan, which impose local head taxes that are deducted from the $34.50 state tax. That leaves about $10 per passenger to be allocated to five ports of call other than Juneau and Ketchikan. Essentially, the amount allocated to ports of call exceeds revenue for every ship with four or more ports of call (including Juneau and Ketchikan).

The FY17 end-of-year balance of the Commercial Vessel Passenger Account is estimated to be $5.8 million. The Department of Revenue's 2016 Fall Revenue Forecast estimates FY18 revenue as $18.6 million and the pass-through amount as $16.5 million. The FY18 Governor's capital budget request includes a grant for $600 thousand to the Marine Exchange of Alaska; leaving a balance of $7.3 million available for appropriation. Historical estimates of revenue and distribution to communities have been unreliable.

Legislative Fiscal Analyst Recommendation: The legislature should review options to address the potential for over-appropriating the account.

One example is to appropriate no more than the balance at the end of the most recently closed fiscal year (the amount in FY18 available for appropriation would be equal to the balance available at the end of FY16).

(d) If the amount available for appropriation from the commercial vessel passenger tax account (AS 43.52.230(a)) is less than the amount necessary to pay the first seven ports of call their share of the tax collected under AS 43.52.220 in calendar year 2017 according to AS 43.52.230(b), then the appropriation made in (c) of this section shall be reduced in proportion to the amount of the shortfall.

Subsection (d) is intended to prorate pass-though funding to the first seven ports of call if revenue is less than the calculated amount of pass-through.

Legislative Fiscal Analyst Comment: While the need to prorate is unlikely, the section does no harm.

Sec. 26. RATIFICATIONS OF SMALL AMOUNTS IN STATE ACCOUNTING SYSTEM. The appropriation to each department under this Act for the fiscal year ending June 30, 2018, is reduced to reverse negative account balances in amounts of $1,000 or less for the department in the state accounting system for each prior fiscal year in which a negative account balance of $1,000 or less exists.

Section 26 allows departments to use money appropriated for FY18 to clean up small negative account balances (or ratifications) from prior fiscal years. This section removes the need for minuscule ratifications.

Sec. 27. CONSTITUTIONAL BUDGET RESERVE FUND. (a) Deposits in the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska) for fiscal year 2017 that are made from subfunds and accounts other than the operating general fund (state accounting system fund number 1004) by operation of art. IX, sec. 17(d), Constitution of the State of Alaska, to repay appropriations from the budget reserve fund are appropriated from the budget reserve fund to the subfunds and accounts from which those funds were transferred.

Subsection (a) is "sweep reversal language" that restores money from funds and accounts that are swept into the constitutional budget reserve (CBR) fund. The Constitution requires that several year-end general fund and subaccount balances be used to repay withdrawals from the constitutional budget reserve (CBR) fund. Inclusion of the subsection was triggered by a $3 billion appropriation from the CBR to retirement funds in FY15.

(b) If the unrestricted state revenue available for appropriation in fiscal year 2018 is insufficient to cover the general fund appropriations that take effect in fiscal year 2018, the amount necessary to balance revenue and general fund appropriations, after the appropriations made in sec. 7 of this Act, is appropriated to the general fund from the budget reserve fund (art. IX, sec. 17, Constitution of the State of Alaska).

Section 27(b) fills a budget deficit with a transfer from the CBR to the general fund. Note that general fund revenues include the payout from the Permanent Fund Earnings Reserve Account as appropriated in section 7.

Funding: The estimated value of this appropriation is about $840 million based on the Governor's FY18 proposed budget.

(c) The appropriations made in (a) and (b) of this section are made under art. IX, sec. 17(c), Constitution of the State of Alaska.

Subsection (c) stipulates that appropriations made from the CBR must be approved by at least three-quarters of the members of each house of the legislature.

New Subsection

Sec. 28. Section 2, ch. 3, 4SSSLA 2016, page 47, lines 23 - 27, is repealed.

Section 28 repeals a fiscal note appropriation made to the Division of Insurance. In FY17, $55 million was appropriated from the Alaska Comprehensive Health Insurance (ACHI) fund for the Alaska Reinsurance Program. Due to the program operating on a calendar year basis, a multi-year appropriation (FY17-FY18) is requested in section

10(h), replacing the single fiscal year appropriation.

Legislative Fiscal Analyst Comment: Additional details regarding the ACHI fund and the Alaska Reinsurance Program can be found under section 10(h).

Sec. 29. LAPSE OF APPROPRIATIONS. The appropriations made in secs. 6(c), 7, 8(b), 9(d), and 21 - 23, of this Act are for the capitalization of funds and do not lapse.

Section 29 ensures that money deposited into various funds will not lapse at the end of FY18.

Sec. 30. RETROACTIVITY. The appropriations made in sec. 1 of this Act that appropriate either the unexpended and unobligated balance of specific fiscal year 2017 program receipts or the unexpended and unobligated balance on June 30, 2017, of a specified account are retroactive to June 30, 2017, solely for the purpose of carrying forward a prior fiscal year balance.

Section 30 is standard language to ensure that revenue attached to appropriations or allocations with carryfoward language does not lapse at the end of FY17.

Sec. 31. CONTINGENT EFFECT. The appropriations made in sec. 27(a) and (b) of this Act are contingent upon an affirmative vote of three-fourths of the members of each house of the Thirtieth Alaska State Legislature in the First Regular Session.

Sec. 32. Sections 7(d), 10(h), and 19(m) of this Act take effect June 30, 2017.

Sec. 33. Section 30 of this Act takes effect immediately under AS 01.10.070(c).

Sec. 34. Except as provided in secs. 32 and 33 of this Act, this Act takes effect July 1, 2017.

Capital Budget

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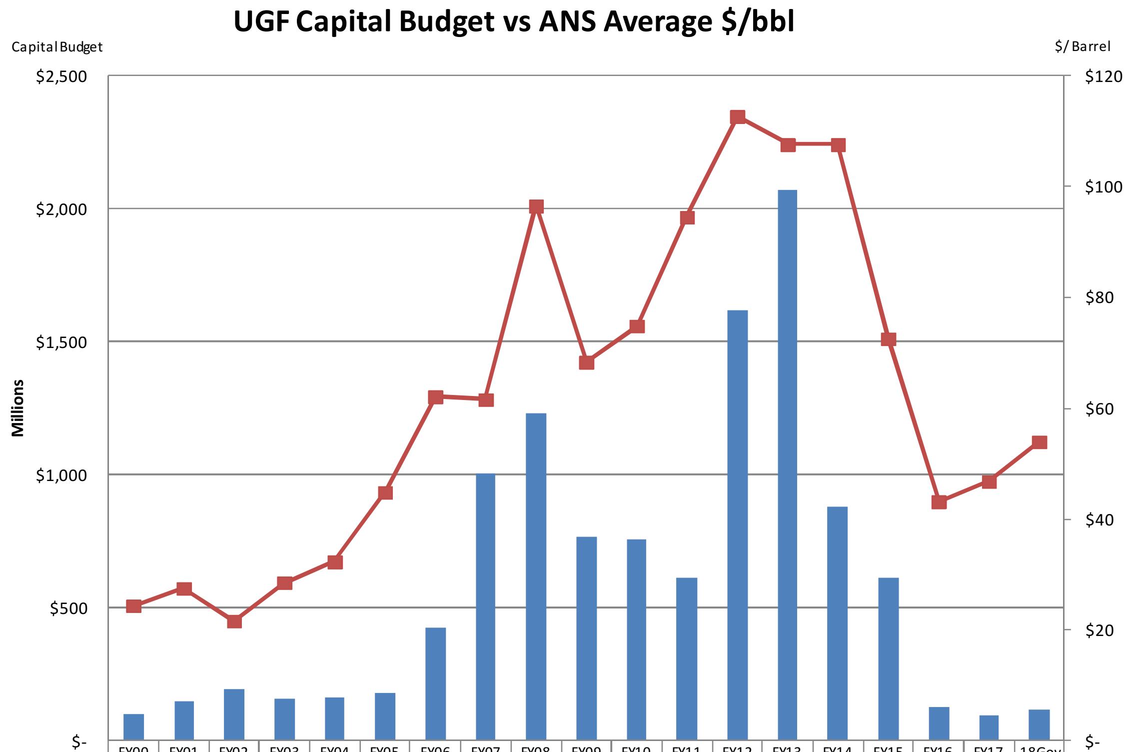
Capital Budget

The Unrestricted General Fund (UGF) capital budget for FY17 was $96 million — the smallest capital budget since FY00 when oil prices averaged $24.42/bbl. At $115 million, the Governor's proposed FY18 capital budget is higher than FY17, but still dramatically lower than in recent years. The graph below shows the relationship between oil prices and capital budgets.



	FY00	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	18Gov
UGF Capital Budget	104	147	193	157	162	180	427	1,003	1,230	765	758	615	1,617	2,072	880	611	130	96	115
ANS Average $/bbl	$24	$28	$22	$29	$32	$45	$62	$62	$97	$68	$75	$94	$113	$108	$108	$73	$43	$47	$54

Note - ANS Average $/bbl for FY17/FY18 are from the DOR 2016 Fall Forecast. As of 12/30/16, the ANS West Coast price was $54.67/ bbl and the FY17 average to date was $46.92/bbl.

As illustrated in the graph, the years FY06-FY15 saw unprecedented capital investment. During that ten-year span, over $25 billion of state and federal funding was appropriated for capital projects. This includes nearly $10 billion of unrestricted general funds – some of which has yet to be expended. In January of 2015, there was approximately $4.2 billion of unexpended general funds for capital projects still in the state accounting system[1]. As of January 2017, this amount has declined to approximately $1.79 billion.

The table below provides a summary of UGF capital appropriations during the ten-year capital spending "boom."

[1] This includes both encumbered and unobligated funding and excludes projects for the University and the public corporations.

UGF Capital Projects-10 Years (FY06-FY15)	(millions)	
Statewide Deferred Maintenance	714.0	7.2%
Federal Match for Highways and Airports	541.3	5.4%
State Transportation Projects (no federal)	1,199.0	12.0%
Village Safe Water Match	137.7	1.4%
Muni Water/Sewer Projects	194.8	2.0%
School Construction	715.5	7.2%
School Major Maintenance	324.0	3.3%
UAA Engineering Building	82.6	0.8%
UAF Engineering Building	66.3	0.7%
AMHS Alaska Class Ferries	180.0	1.8%
AHFC Home Energy Rebate	252.5	2.5%
AHFC Weatherization	383.1	3.8%
Renewable Energy Projects	227.5	2.3%
Susitna-Watana Hydro	173.4	1.7%
Other Energy Projects	249.9	2.5%
Grants to Municipalities/Named Recipients	2,606.2	26.2%
Port of Anchorage	219.8	2.2%
Port Mackenzie Including Rail Extension	187.6	1.9%
Other Projects	1,505.9	15.1%
Total	$ 9,961.1	100.0%

The Governor's FY18 Capital Budget

Generally speaking, the FY16 and FY17 capital budgets included only projects that leveraged other money. The main exception was a $43 million appropriation in FY16 for the Kivalina K-12 school replacement, which was required by the *Kasayulie* lawsuit settlement.

The Governor's FY18 capital budget again focuses on leveraging federal transportation and Village Safe Water funding, but includes some additional items that are important to the Governor. Some legislators will undoubtedly argue that important projects are omitted from the Governor's request.

Project highlights include:

- Department of Environmental Conservation (DEC) Village Safe Water/ Wastewater Projects - $12.1 million G/F Match leveraging $52.25 million Federal Receipts
- Department of Transportation and Public Facilities (DOT&PF) Federal Highway and Aviation State Match - $70.1 million G/F Match leveraging approximately $828 million Federal Receipts
- DOT&PF Municipal Harbor Facility Grant Fund - $5 million general funds
- DOT&PF New Replacement Vessel for *Tustemena* - $244 million ($222 million Federal Receipts; $22 million general funds)

- DOT&PF Alaska Marine Highway System (AMHS) Vessel Overhaul - $12 million general funds
- Alaska Energy Authority Energy Programs - $6.25 million general funds
- Alaska Housing Finance Corporation Programs - $19.2 million general funds
- Four *Exxon Valdez* Oil Spill (EVOS) Settlement projects for habitat restoration and land purchases - $19 million EVOS Funds

A discussion of various issues follows.

Deferred Maintenance

Deferred maintenance is self-explanatory; it is maintenance that has been deferred to another time, usually as a consequence of insufficient funding. The most recent estimates by the Office of Management and Budget continue to show a deferred maintenance backlog totaling just over $1.6 billion (see the table below).

Deferred Maintenance by Agency (millions)						
	Jan-13	Jan-14	Jan-15	Jan-16	Jan-17	Difference Jan-16 to Jan-17
Administration	48.7	59.3	45.7	67.8	60.2	(7.6)
Corrections	87.4	74.6	65.9	59.4	45.7	(13.7)
Court System	8.1	6.8	6.9	8.7	7.7	(1.0)
Education & Early Development	12.6	16.7	15.0	16.5	20.7	4.2
Environmental Conservation	0.0	0.2	0.3	0.0	0.0	0.0
Fish and Game	2.0	1.4	1.4	1.4	1.0	(0.4)
Health & Social Services	17.1	25.2	18.2	24.2	29.1	4.9
Labor & Workforce Development	31.5	21.3	15.0	11.9	12.9	1.0
Military & Veterans Affairs	27.9	46.5	48.2	27.2	0.0	(27.2)
Natural Resources	74.1	75.5	73.2	70.2	73.2	3.0
Public Safety	6.7	6.2	6.6	5.3	2.0	(3.3)
Transportation & Public Facilities	**673.8**	**515.2**	**459.0**	**435.0**	**346.5**	**(88.5)**
Airports	49.2	50.2	51.6	77.6	69.4	(8.2)
Harbors	16.0	15.9	9.5	14.5	15.2	0.7
Facilities	33.1	32.8	24.4	27.3	21.1	(6.2)
Highways	558.7	403.9	360.0	302.0	237.8	(64.2)
AMHS Vessels/Terminals	16.8	12.4	13.5	13.6	3.0	(10.6)
University of Alaska	1,200.7	1,203.0	1,091.2	1,080.6	1,008.8	(71.8)
Total	**2,190.6**	**2,051.9**	**1,846.6**	**1,808.2**	**1,607.8**	**(200.4)**

The Parnell administration had implemented a plan to appropriate $100 million in each of five years in order to reduce the deferred maintenance backlog. The legislature approved nearly all of the funding and the backlog has been declining.

Minimal deferred maintenance funding was authorized in the FY16 and FY17 budgets and very little is proposed in the Governor's FY18 request (an estimated total of $4.8 million is provided via reappropriation in the language section of the bill along with three other projects in the numbers section for a total of $12.1 million).

Deferred maintenance appropriations addressing the over $1 billion backlog for the University of Alaska are conspicuous by their absence. The Board of Regent's requested $50 million. The University typically receives some amount ($10 million in recent years) for its asset maintenance.

Ignoring agency maintenance needs could reverse the declining backlog trend and result in costlier repairs in the future. Several points are worth mentioning in this regard.

1. With a focus on deferred maintenance and a consistent funding stream, agencies had become better at identifying and estimating the cost of projects. With sustained funding, the backlog was expected to decrease.
2. As projects are addressed and removed from the backlog, new projects are identified and added.
3. Even assuming zero growth in new projects, the existing backlog will cost more to address over time as inflationary pressures increase the cost of construction. Furthermore, the longer projects are delayed, the further they fall into disrepair and the more they cost to complete.

Legislative Fiscal Analyst Comment: Eliminating the backlog is not feasible. However, continuing to address the backlog and reducing it to some sustainable level may save money in the long-run. Deferred maintenance should be discussed by the legislature.

The numbers in the deferred maintenance backlog table should be considered approximations. Until the State adopts a definition for deferred maintenance, estimates of the deferred maintenance backlog will remain rough. The Federal Accounting Standards Advisory Board (FASAB) provides a model definition for "maintenance" that could be utilized.

"Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventative maintenance, replacement of parts, systems, or components, and other activities needed to preserve or maintain the asset. Maintenance and repairs exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use."

A clear accounting of the backlog could lead to a better understanding of the funding that needs to be applied to the backlog and to current and preventative maintenance plans. Without proper measurement, it will be difficult to determine whether improvements are being made.

School Construction and Major Maintenance

The Governor's FY18 budget contains no funding for school construction or school major maintenance. The State's shares of the current Capital Improvement Project (CIP) priority lists for school construction and school major maintenance total $123.3 million and $164.9 million, respectively.

Legislative Fiscal Analyst Comment: It is unclear at this time whether excluding funding for schools and the University is a reflection of sufficient available balances and/or project management limitations, or due to pressure to submit a total budget smaller than the FY17 budget. Further discussion of issues surrounding school construction begins on page 61.

Surface Transportation Program (STP) and Airport Improvement Program (AIP) – Single Appropriations without Allocations

DOT&PF is proposing to do away with allocations in the appropriations for the Federal STP and AIP programs in order to gain administrative efficiencies and provide a more accurate representation of DOT&PF's capital budget spending plan. A similar action was requested and implemented by the legislature several years ago for the Department of Environmental Conservation (DEC) Village Safe Water and Waste Water Program.

To be eligible to receive funding in either the STP or AIP program, a project must appear on a federally approved capital improvement plan. For highways, this means the Statewide Transportation Improvement Program (STIP). For rural airports, it means the Airport Improvement Program (AIP). These plans follow federal requirements for project ranking and public involvement and, historically, determined the allocations that made up the appropriations.

Currently, DOT&PF carries surplus authorization in these programs to account for an average of 30% increases in project costs and to ensure that there is room to redirect $100 million of excess federal obligations from completed projects. One of the Department's objectives is to minimize the risk of losing federal funds to another state due to the inability to redirect federal money to other eligible projects.

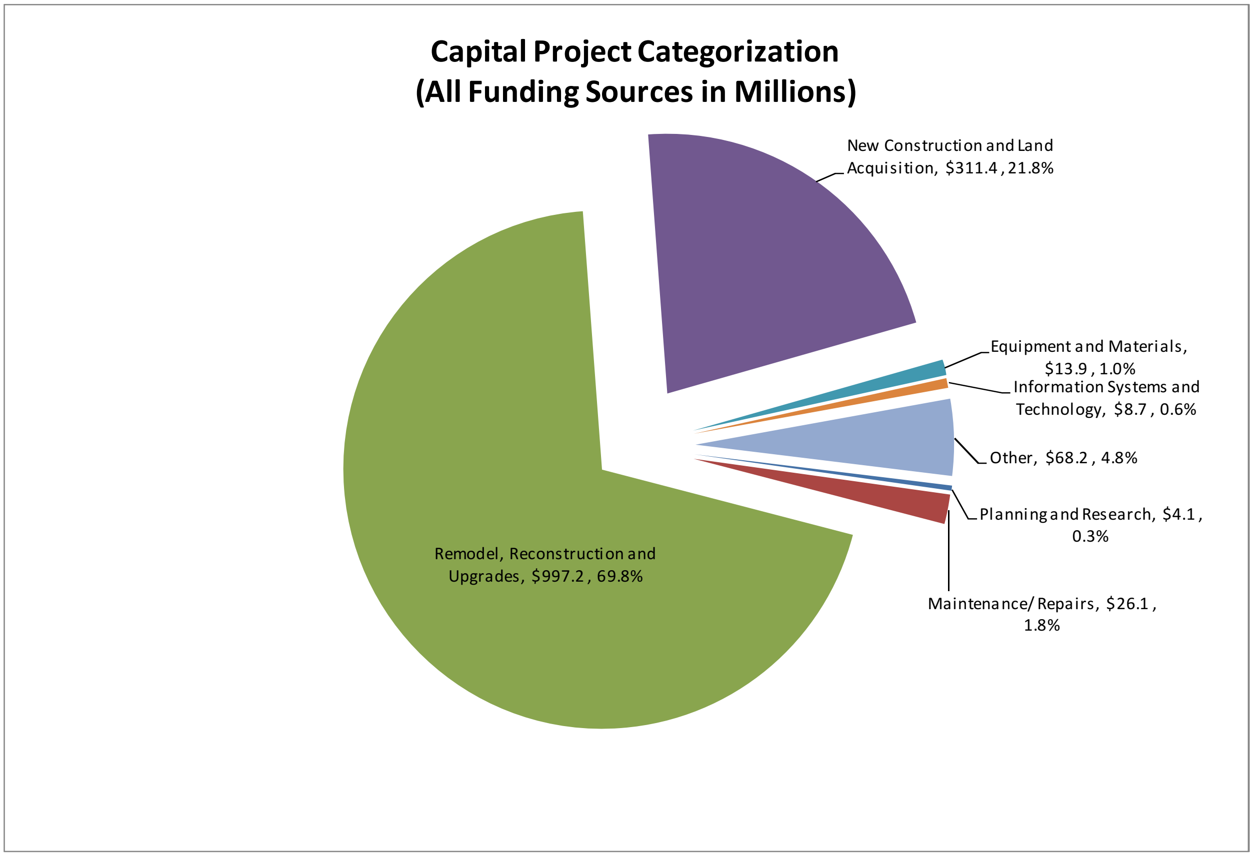
The ability to redirect approved legislative authority to projects that have insufficient authority provides DOT&PF with the flexibility necessary to manage the capital improvement program. However, obtaining this flexibility requires DOT&PF to reserve (by over budgeting) excess federal legislative authority that otherwise could lapse. As a result of this practice, there is currently over $2.1 billion of unobligated, unencumbered federal authority on DOT&PF's books (some more than ten years old).

DOT&PF has a white paper providing a detailed discussion of these issues. The department will provide the paper to legislators upon request.

Legislative Fiscal Analyst Comment: There may be significant merit in making this structural budget change, but the legislature may want to weigh both pros and cons. Eliminating allocations appears to reduce legislative "control" over the budget, but the programs are primarily dictated by the federal planning documents (STIP and AIP) anyway.

The proposal would also make reporting the election district distribution of federal funding problematic.

The pie chart below categorizes the capital budget by project groups. The groupings are a mutually exclusive set. This allows the Legislative Finance Division to prepare a Project Group Summary report that reflects the entire capital budget without duplication. As with any task of categorization, subjectivity exists.



The rules used to define the projects in each group are provided in the table below.

PROJECT GROUP	DESCRIPTION
Planning and Research	Projects involving planning, design, engineering, research or studies
Maintenance and Repairs	Projects involving the repair of deteriorated conditions, restoration to previous conditions, and preventative maintenance
Remodel, Reconstruction and Upgrades	Projects modifying or rebuilding existing space; includes complete replacement and upgrades
New Construction and Land Acquisition	Projects involving the addition of new space; including extensions and expansions
Information Systems and Technology	Projects related to information technology regardless of whether they are in a planning phase or construction (programming) phase - segregated due to their unique nature
Equipment and Materials	Projects involving the purchase of equipment and materials
Other	Projects that do not fit elsewhere

Capital Budget Summary

($ Thousands)

	Agency Comparison - All Funds (Includes MH)			FY18 Governor's Budget by House District				
Agency	**FY17 Budget (1)**	**FY18 Gov**	**Change FY17-FY18**	**House District**	**HD #**	**General Funds**	**Other State Funds**	**Federal Funds**
Administration	4,475.0	5,000.0	525.0	**Fairbanks Areawide**	**1-5**	-	-	-
Commerce, Community & Econ Dev	13,191.5	39,966.3	26,774.8	**Mat-Su Areawide**	**7-12**	250.0	-	-
Corrections	2,500.0	-	(2,500.0)	**Anchorage Areawide**	**12-28**	-	-	-
Education and Early Development	18,347.3	-	(18,347.3)	**Kenai Areawide**	**29-31**	-	3,518.9	-
Environmental Conservation	67,856.3	67,708.7	(147.6)	**Kodiak/ Cordova/ Seldovia**	**32**	-	15,500.0	-
Fish and Game	3,350.0	4,000.0	650.0	**Juneau Areawide**	**33-34**	1,000.0	-	-
Office of the Governor	-	-	-	**Southeast Region**	**33-36**	250.0	-	-
Health and Social Services	22,186.3	9,428.5	(12,757.8)	**Sitka/ Petersburg**	**35**	-	-	-
Labor and Workforce Development	-	-	-	**Bristol B/Aleutian/Up Kusk**	**37**	-	-	-
Law	-	-	-	**Lower Kuskokwim**	**38**	-	-	-
Military and Veterans Affairs	4,600.0	6,100.0	1,500.0	**Arctic**	**40**	-	-	3,240.3
Natural Resources	20,730.0	29,618.9	8,888.9	**Statewide**	**1-40**	145,229.6	55,959.2	1,204,661.7
Public Safety	1,200.0	1,200.0	-					
Revenue	42,525.8	42,550.0	24.2					
Transportation & Public Facilities	1,378,278.2	1,221,511.8	(156,766.4)					
University of Alaska	-	-	-					
Judiciary	3,345.2	2,525.4	(819.8)					
Legislature	-	-	-					
Total Capital - "Money on the Street" (2)	**1,582,585.6**	**1,429,609.6**	**(152,976.0)**	**Total**		**146,729.6**	**74,978.1**	**1,207,902.0**
Unrestricted General Funds	96,137.1	115,249.6	19,112.5	**Unrestricted General Funds**		115,249.6	-	-
Designated General Funds	11,705.9	31,480.0	19,774.1	**Designated General Funds**		31,480.0	-	-
Other State Funds	149,508.1	74,978.1	(74,530.0)	**Other State Funds**		-	74,978.1	-
Federal Funds	1,325,234.6	1,207,902.0	(117,332.6)	**Federal Funds**		-	-	1,207,902.0

Notes:

1) The FY17 Budget column includes a Governor's FY17 supplemental request of $250.0 for Snowmobile Trail Development Grants.
2) "Money on the Street" is the total amount of funding for capital projects. Duplicated fund sources are not removed because doing so would understate the amount of funding going toward capital projects.

Language Sections of the Governor's FY18 Capital Budget

Sec. 7. FEDERAL AND OTHER PROGRAM RECEIPTS. Federal receipts, designated program receipts as defined in AS 37.05.146(b)(3), information services fund program receipts as defined in AS 44.21.045(b), Exxon Valdez oil spill trust receipts as defined in AS 37.05.146(b)(4), receipts of the Alaska Housing Finance Corporation, receipts of the Alaska marine highway system fund as defined in AS 19.65.060(a), receipts of the University of Alaska as described in AS 37.05.146(b)(2), receipts of commercial fisheries test fishing operations defined in AS 37.05.146(c)(21), and receipts of the Alaska Aerospace Corporation that are received during the fiscal year ending June 30, 2018, and that exceed the amounts appropriated by this Act, are appropriated conditioned on compliance with the program review provisions of AS 37.07.080(h).

Section 7 provides open-ended appropriations of the types of receipts listed. Although the appropriations are conditioned on review by the Legislative Budget and Audit Committee (LB&A), the Governor can increase authorization for listed fund sources without the approval of the Committee. Similar language in the operating budget applies only to appropriations in the operating bill.

Funding: Although requests for approval to spend additional receipts will almost certainly be received, there is no way to determine where the increases will be, how much they will be, or what fund sources would be appropriate. The Legislative Finance Division reports place no dollar value on appropriations made in this section.

Sec. 8. INSURANCE CLAIMS. The amounts to be received in settlement of insurance claims for losses and the amounts to be received as recovery for losses are appropriated from the general fund to the

(1) state insurance catastrophe reserve account (AS 37.05.289(a)); or

(2) appropriate state agency to mitigate the loss.

Section 8 allows an agency to receive insurance claim settlement payments directly from a third party. Without this provision, settlements would remain in the general fund and would not be available to offset an agency's loss without a specific appropriation.

Sec. 9. NATIONAL PETROLEUM RESERVE - ALASKA IMPACT GRANT PROGRAM. The amount received by the National Petroleum Reserve - Alaska special revenue fund (AS 37.05.530(a)) under 42 U.S.C. 6506a(l) or former 42 U.S.C. 6508 by August 31, 2017, estimated to be $3,240,310, is appropriated from that fund to the Department of Commerce, Community, and Economic Development for capital project grants under the National Petroleum Reserve - Alaska impact grant program.

Section 9 appropriates the entire amount received (estimated to be $3.24 million for FY18) from the revenue shared by the federal government from sales, rentals, bonuses, and royalties on leases issued within the NPR-A to the NPR-A Impact Grant Program. Grants are awarded to municipalities impacted by oil and gas development in the NPR-A. AS 37.05.530(g) states that receipts not appropriated as grants are to be distributed as follows: 25% to Permanent Fund Principal, 0.5% to the Public School Trust Fund, and any remaining amount to the Power Cost Equalization and Rural Electric Capitalization Fund.

Legislative Fiscal Analyst Comment: Recent capital bills contained a list of grantees and the projects to be funded. Providing this information allows it to be entered into the budget system so that it is available for future queries regarding grants.

Legislative Fiscal Analyst Recommendation: Grantees and a short description of projects should appear in the bill. Grantees are typically selected during the session and a list is often submitted as part of the amendment process.

Remaining balances should not be appropriated to the Power Cost Equalization and Rural Electric Capitalization Fund, which is no longer active. The intent of AS 37.05.530(g)(3) would be most closely followed by appropriating remaining balances to the Power Cost Equalization Endowment Fund [AS 42.45.070(a)]. AS 37.05.530(g) should also be revised.

New Section

Sec. 10. DEPARTMENT OF COMMERCE, COMMUNITY, AND ECONOMIC DEVELOPMENT. (a) The sum of $80,000 is appropriated from the anatomical gift awareness fund (AS 13.50.160) to the Department of Commerce, Community, and Economic Development for payment as a grant under AS 37.05.316 to Life Alaska Donor Services for promoting the donation program described in AS 13.50.150 for the fiscal year ending June 30, 2018.

Subsection (a) appropriates the expected available balance in the Anatomical Gift Awareness Fund to Life Alaska Donor Services as provided by AS 13.50.150.

Legislative Fiscal Analyst Comment: An appropriation for this grant is typically omitted in the Governor's budget and added by the legislature. The funding and purpose have been non-controversial in the past and inclusion of this section by the Governor ensures that the grant won't be overlooked.

Legislative Fiscal Analyst Comment on sections 10(b) through 16: These sections reappropriate funding from existing capital projects to various new capital projects. Reappropriating money is common despite–or perhaps because of the fact–the practice creates a class of projects that tend to get less scrutiny than new projects. Ideally, funding for completed capital projects would lapse to the general fund and be counted as revenue. All "reappropriation projects"–including those listed in this bill–would compete on equal footing with all current year capital projects for the "reappropriation revenue."

(b) The unexpended and unobligated balance, not to exceed $330,000, of the appropriation made in sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) is reappropriated to the Department of Commerce, Community, and Economic Development, Alaska Energy Authority, for electrical emergencies.

Sec. 11. DEPARTMENT OF CORRECTIONS. (a) The unexpended and unobligated balance, not to exceed $1,850,000, of the appropriation made in sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) is reappropriated to the Department of Corrections for underground storage tank upgrades.

(b) The unexpended and unobligated balance, not to exceed $740,000, after the appropriation made in (a) of this section of the appropriation made in sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) is reappropriated to the Department of Corrections for deferred maintenance, renovation, repair and equipment.

Sec. 12. DEPARTMENT OF FISH AND GAME. The unexpended and unobligated balances, not to exceed a total of $500,000, of the appropriations made in sec. 1, ch. 5, FSSLA 2011, page 2, lines 13 - 14 (Department of Administration, Classification System Conversion - $500,000), sec.1, ch. 16, SLA 2013, page 2, lines 18 - 20 (Department of Administration, General Services Douglas Island Building Year 2 of 2 - $9,000,000), and sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) are reappropriated to the Department of Fish and Game for vessels and aircraft maintenance, repair, and upgrades.

Sec. 13. DEPARTMENT OF HEALTH AND SOCIAL SERVICES. (a) The unexpended and unobligated balances, not to exceed a total of $773,432, of the appropriations made in sec. 1, ch. 5, FSSLA 2011, page 2, lines 13 - 14 (Department of Administration, Classification System Conversion - $500,000), sec.1, ch. 16, SLA 2013, page 2, lines 18 - 20 (Department of Administration, General Services Douglas Island Building Year 2 of 2 - $9,000,000), and sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) are reappropriated to the Department of Department of Health and Social Services for pioneer homes deferred maintenance, renovation, repair and equipment.

(b) The unexpended and unobligated balances, not to exceed a total of $382,143, after the appropriation made in (a) of this section of the appropriations made in sec. 1, ch. 5, FSSLA 2011, page 2, lines 13 - 14 (Department of Administration, Classification System Conversion - $500,000), sec.1, ch. 16, SLA 2013, page 2, lines 18 - 20 (Department of Administration, General Services Douglas Island Building Year 2 of 2 - $9,000,000), and sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) are reappropriated to the Department of Health and Social Services for non-pioneer homes deferred maintenance, renovation, repair and equipment.

Sec. 14. DEPARTMENT OF LABOR AND WORKFORCE DEVELOPMENT. The unexpended and unobligated balances, not to exceed a total of $550,000, of the appropriations made in sec. 1, ch. 5, FSSLA 2011, page 2, lines 13 - 14 (Department of Administration, Classification System Conversion - $500,000), sec.1, ch. 16, SLA 2013, page 2, lines 18 - 20 (Department of Administration, General Services Douglas Island Building Year 2 of 2 - $9,000,000), and sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) are reappropriated to the Department of Labor and Workforce Development for deferred maintenance, renewal, repair, and equipment.

Sec. 15. DEPARTMENT OF NATURAL RESOURCES. The unexpended and unobligated balance, not to exceed $150,000, of the appropriation made in sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) is reappropriated to the Department of Natural Resources for national recreation trails federal grant program.

Sec. 16. DEPARTMENT OF TRANSPORTATION AND PUBLIC FACILITIES. (a) The unexpended and unobligated balance, not to exceed $4,430,000, of the

following appropriations is reappropriated to the Department of Transportation and Public Facilities for Alaska class ferry project completion and equipment:

(1) sec. 1, ch. 82, SLA 2006, page 107, line 26, as amended by sec. 20(k), ch. 30, SLA 2007, page 150, lines 16 - 19 (Juneau Access - $35,842,600);

(2) sec. 1, ch. 16, SLA 2013, page 80, line 13 (Juneau Access - $4,600,000);

(3) sec. 32(b), ch. 16, SLA 2013, page 130, lines 17 - 26 (Juneau Access - $5,397,059);

(4) sec. 1, ch. 18, SLA 2014, page 63, line 11 (Juneau Access - $35,000,000).

(b) The unexpended and unobligated balance, after the appropriation in sec. 16(a) of this Act, estimated to be $34,140,130, of the following appropriations is reappropriated to the Department of Transportation and Public Facilities for enhancement of transportation and infrastructure in the greater Lynn Canal area:

(1) sec. 1, ch. 82, SLA 2006, page 107, line 26, as amended by sec. 20(k), ch. 30, SLA 2007, page 150, lines 16 - 19 (Juneau Access - $35,842,600);

(2) sec. 1, ch. 16, SLA 2013, page 80, line 13 (Juneau Access - $4,600,000);

(3) sec. 32(b), ch. 16, SLA 2013, page 130, lines 17 - 26 (Juneau Access - $5,397,059);

(4) sec. 1, ch. 18, SLA 2014, page 63, line 11 (Juneau Access - $35,000,000).

Sec. 17. LAPSE. (a) The appropriations made in secs. 1, 4, 9, 10(b), 11, 12, 13, 14, 15, and 16 of this Act are for capital projects and lapse under AS 37.25.020.

> **Legislative Fiscal Analyst Comment:** The capital project lapse provision under AS 37.25.020 was amended during the 2014 session by HB 306 (Chapter 61, SLA 2014). The new lapse provision was modeled after the lapse provision for Grants to Municipalities (AS 37.05.315) whereby "substantial and ongoing work" must have begun within five years of the effective date of the appropriation. As long as substantial and ongoing work continues, the capital appropriation will not lapse. Previous to this change, capital appropriations were effective for the "life" of the capital project. This provided excessive ambiguity and allowed agencies to retain funding for capital projects with little, or no, legislative oversight.

(b) The appropriation made in sec. 8(1) of this Act is for the capitalization of funds and does not lapse.

(c) A grant awarded in this Act to a named recipient under AS 37.05.316 is for a capital project and lapses under AS 37.05.316 unless designated for a specific fiscal year.

Subsection 17(c) identifies grants to named recipients as capital projects.

Legislative Fiscal Analyst Comment: This provision ensures that grants to named recipients are treated as capital projects. Prior to including this provision, Department of Commerce, Community and Economic Development included grants in their operating budget, thereby distorting the amount spent on day-to-day operations.

Sec. 18. Sections 4, 10(b), 11, 12, 13, 14, 15, and 16 of this Act take effect June 30, 2017.

Sec. 19. Except as provided in sec. 18 of this Act, this Act takes effect July 1, 2017.

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Agency Narratives and Funding Summaries

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Department of Administration

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$99,333.5**			
FY17 Fiscal Notes	834.6			
CarryForward	2,693.5			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(831.5)			
FY17 Management Plan (GF only)	**$102,030.1**	$2,696.6	2.7%	
One-time Items Removed	(3,899.5)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	214.0			**5**
Maintenance Increments	835.6			**7**
FY18 Contractual Salary Increases	794.7			
FY18 Adjusted Base Budget (GF only)	**$99,974.9**	($2,055.2)	-2.0%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(476.5)			
FY18 Governor's Agency Request (GF only)	**$99,498.4**	($476.5)	-0.5%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Allocation			**($476.5)**	
Administrative Hearings	135.4	185.4	50.0	**1**
Personnel	984.1	321.4	(662.7)	**8**
Purchasing	969.3	1,250.8	281.5	**2**
Facilities	230.1	280.1	50.0	**2**
Non-Public Building Fund Facilities	481.4	543.4	62.0	**2**
Property Management	7.3	-	(7.3)	
Motor Vehicles	16,801.4	16,551.4	(250.0)	**8**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	226,994.6	233,332.3	6,337.7	**4,5,8**
Federal Funds (all allocations)	2,222.9	3,622.9	1,400.0	**6**
Total Non-General Funds (all allocations)	**$229,217.5**	**$236,955.2**	**$7,737.7**	
Position Changes (From FY17 Authorized to Gov)	**1,098**	**1,181**	**83**	
PFT	1,041	1,143	102	**4,8**
PPT	19	14	(5)	
Temp	38	24	(14)	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	4,500.0	-	4,500.0	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	500.0	-	500.0	
Other	-	-	-	
TOTAL CAPITAL	**$5,000.0**	**$0.0**	**$5,000.0**	

Department of Administration

The mission of the Department of Administration (DOA) is to provide consistent and efficient support services to state agencies so that they may better serve Alaskans. DOA establishes policies and coordinates services among departments and provides statewide leadership and policy direction. The department's core services are:

- legal, advocacy, and regulatory services;
- family support; and
- enterprise support services.

The department also oversees the Division of Motor Vehicles and the administrative functions of four independent boards and commissions (the Alaska Public Broadcasting Commission, the Alaska Public Offices Commission, the Alaska Oil and Gas Conservation Commission, and the Violent Crimes Compensation Board).

BUDGET SUMMARY

The FY18 Department of Administration general fund operating budget submitted by the Governor on December 15, 2016 is $476.5 (0.5%) *below* the FY18 Adjusted Base [a *decrease* of $670.0 Unrestricted General Funds (UGF) and an increase of $193.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/ PROGRAM EXPANSION

1. **Office of Administrative Hearings (OAH) – Increase Receipt Authority for Mediation Service Fee Charges: $50.0 GF/Program Receipts.** The OAH is actively marketing its services to municipalities and school districts as a low-cost alternative for mediation services. To date, service agreements have been activated with three entities. This increment doubles the existing program receipt authority in this allocation.

2. **Shared Services of Alaska (SSoA) Receipt Increases: $393.5 GF/Program Receipts (DGF).** The following allocations within the SSoA reflect requests for additional fee authority:

   - **Purchasing – $281.5 GF/Prgm.** A new vendor administrative fee has been included on all cooperative contracts administered by Purchasing. As part of the overall SSoA process, the use of these fees is needed to support personnel who are negotiating and administering statewide agreements on behalf of all branches of state government as well as local governments and other political subdivisions of the State.

   - **Facilities – $50.0 GF/Prgm.** The Governor's request includes increased receipts due to private parking in the Linny Pacillo Parking Garage in Anchorage. This increased revenue generated from private parking allows SSoA to offset the impact of general fund reductions for the state agencies who occupy space in the garage.

   - **Non-Public Building Fund Facilities – $62.0 GF/Prgm.** Increased GF/Program Receipt authority is requested as a result of space rented to a new private tenant at the Geologic Material Center in Anchorage.

MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

3. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (3 from DOA) and another 68 positions to OIT (1 from DOA).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA.

   For more information, see item #10 below or the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

4. **SSoA Business Transformation Office: $712.0 I/A Receipts (Other) and 4 PFT Positions.** Four new Program Manager positions (two in Anchorage/ two in Juneau) are requested to provide leadership for transitioning services from agencies to the new Shared Services of Alaska division.

5. **Affordable Care Act Mandatory Fees: $664.0 Total [$214.0 UGF/ $450.0 GroupBen (Other)].** The Patient Centered Outcome Research Institute (PCORI), created as part of the Affordable Care Act, imposes a fee for self-insured health plans to fund the PCORI trust fund. Payment of the fee for the active health plan is administered by the Division of Finance ($55.0 UGF – IncT); while the Division of Retirement and Benefits administers the retiree health plan fee ($159.0 UGF – IncT). Because the PCORI fees are in effect for a seven-year period, Legislative Finance Division shows the costs as temporary increments.

   In addition to the PCORI fees, the Affordable Care Act also imposes a mandatory but temporary transitional reinsurance program to help stabilize premiums in the individual health insurance market. The program is funded by contributions from insurers in the individual, small group, and large group markets, as well as by self-insured health plans such as the AlaskaCare Employee and Retiree Health Plans. In FY18, this temporary, mandated fee is calculated at $450.0 GroupBen (IncOTI).

6. **Enterprise Technology Services/ Alaska Land Mobile Radio (ALMR) – Department of Defense Reimbursement: $1,400.0 Fed Receipts.** The ALMR allocation contains funding for contracts that operate and manage the State of Alaska's share of the interoperable, public safety-grade communications system for first responders and the State of Alaska Telecommunication System. This is a shared system managed by a cooperative agreement among the State of Alaska, the Department of Defense, and the Municipality of Anchorage. In FY17, the State of Alaska negotiated a new single service contract with Motorola Solutions, Inc., on behalf of all participants. As a result of the new contract, the Department of Defense can no longer pay Motorola directly, but must pass their payment through the State, who will pay Motorola Solutions, Inc. on their behalf. This increment is not an increase to ALMR services, but a change in how funds are administered.

7. **Public Communications Services Appropriation – Restore Public Broadcasting Support to the FY17 Level: $635.6 UGF.** The following increments continue funding at the FY17 level:

- **Public Broadcasting Commission – Grant Funding for Oversight of Public Radio and Television: $2.3 UGF.** This IncM restores UGF for administrative operating expenses in support of the public radio and television grantees.
- **Public Broadcasting – T.V. – Grant Funding for Public Television: $633.3 UGF.** The Governor's budget also proposes the restoration of UGF in support of statewide public television services including Gavel to Gavel, 360North, and UATV.

8. **Additional Reductions Due to Management and Contract Savings: ($1,712.7) Total/ [($662.7) UGF/ ($250.0) GF/Prgm (DGF)/ ($800.0) I/A Rcpts (Other)] and (3) PFT Positions.** The Governor's FY18 Budget for DOA also includes the following general fund-related decrements:

- **Centralized Administrative Services/ Personnel: ($1,138.3) Total [($338.3) UGF/ ($800.0) I/A Rcpts (Other)].** The department is working to leverage the Human Resource Management system to achieve savings and will continue to review processes for additional efficiencies.
- **Centralized Administrative Services/ Personnel: ($324.4) UGF and (3) PFT Positions.** Reduce the number of class studies and delete three full-time Classification positions with associated funding. The division is restructuring the Classification Section and reviewing how to mitigate the impacts of offering fewer class studies to agencies.
- **Motor Vehicles/ Motor Vehicles: ($250.0) GF/Prgm (DGF).** The Division of Motor Vehicles is working to streamline processes, place services online, and ensure that delivery of those services is completed efficiently.

OTHER ISSUES

9. **Bargaining Unit Negotiations.** According to the department, the State expects to initiate and complete bargaining unit agreements with the following groups for FY18 implementation (in time for submission and review by the 2017 Alaska State Legislature):

- Alaska Vocational Technical Center Teacher's Unit (AVTECTA);
- Inlandboatmen's Union (IBU);
- Masters, Mates and Pilots (MMP);
- Marine Engineers' Beneficial Association (MEBA);
- Public Safety Employees Association (PSEA); and
- Teachers' Education Association of Mt. Edgecumbe (TEAME).

ORGANIZATIONAL CHANGES

10. **Shared Services of Alaska.** With the first wave of change and consolidation under the new "Shared Services of Alaska" (SSoA) and Office of Information Technology (OIT) appropriations, several organizational changes are reflected in the FY18 Department of Administration budget.

<u>**New Appropriation:**</u> **Shared Services of Alaska (SSoA)** [renamed from General Services] This appropriation consists of the following nine allocations:

- Accounting (new)

- Business Transformation Office (new)
- Purchasing
- Print Services (formerly Central Mail)
- Leases
- Lease Administration
- Facilities
- Facilities Administration
- Non-Public Building Fund Facilities

(Property Management no longer exists as a separate allocation and resources and positions have been transferred throughout SSoA.)

New Appropriation: **Office of Information Technology (OIT)** was created with two allocations:

- Chief Information Officer
- Alaska Division of Information Technology (formerly the Enterprise Technology Services allocation under the Enterprise Technology Services appropriation).

As part of the overall reorganization to SSoA and OIT, the Centralized Administrative Services/DOA Information Technology Support allocation is zeroed out as resources and staff are transferred to various allocations.

CAPITAL REQUEST

The Governor's FY18 Department of Administration capital budget totals $5 million [$4.5 million Public Building Fund (Other)/ $500.0 Various Retirement Funds (Other)]. No general funds are requested. The two DOA capital projects are as follows:

- **General Services Public Building Fund Buildings Deferred Maintenance: $4,500.0 Public Building Fund (Other).** This project will continue to address deferred maintenance needs in the State Office Building, the Dimond Courthouse, the Atwood Building, the Fairbanks Regional Office Building, the Linny Pacillo Parking Garage and Office, the Palmer State Office Building, and the Alaska Geologic Materials Building.
- **Replacement of Pension and Benefits System Hardware: $500.0 Total [$153.2 Group Ben/ $2.2 FICA Acct/ $240.3 PERS Trust/ $97.2 Teach Ret/ $0.8 Jud Retire/ $6.3 Nat Guard] (Other).** This project provides for the purchase and replacement of IBM and Oracle hardware for the Division of Retirement and Benefits business pension and benefits management system. This project targets specific pieces of the platforms that are failing and beyond the recommended end of life standards.

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Department of Commerce, Community, and Economic Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$102,445.5**			
FY17 Fiscal Notes	55,573.3			
CarryForward	1,019.8			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(4,457.3)			
FY17 Management Plan (GF only)	**$154,581.3**	$52,135.8	50.9%	
One-time Items Removed	(57,779.5)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	320.1			
FY18 Adjusted Base Budget (GF only)	**$97,121.9**	($57,459.4)	-37.2%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	14,645.0			
FY18 Governor's GF Increments/Decrements/Fund Changes	37,217.9			
FY18 Governor's Agency Request (GF only)	**$148,984.8**	$51,862.9	53.4%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Allocation			**$51,862.9**	
Commissioner's Office	74.2	35.3	(38.9)	
Administrative Services	680.3	644.3	(36.0)	**7**
Banking and Securities	3,595.3	3,670.2	74.9	**1**
Community & Regional Affairs	6,682.4	6,339.6	(342.8)	**4**
Corporations, Business and Professional Licensing	12,626.4	12,977.4	351.0	**2 & 8**
Tourism Marketing	1,500.0	-	(1,500.0)	**5**
Alaska Reinsurance Program	-	55,000.0	55,000.0	**9**
Alcohol and Marijuana Control	1,929.9	3,784.6	1,854.7	**3 & 10**
AEA Power Cost Equalization	40,355.0	37,855.0	(2,500.0)	**6**
Alaska Seafood Marketing Institute	2,000.0	1,000.0	(1,000.0)	**12**

Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	57,881.7	58,461.7	580.0	**12**
Federal Funds (all allocations)	20,049.3	20,356.3	307.0	
Total Non-General Funds (all allocations)	**$77,931.0**	**$78,818.0**	**$887.0**	
Position Changes (From FY17 Authorized to Gov)	**538**	**517**	**(21)**	**1,3,4,7,8**
PFT	533	512	(21)	
PPT	-	-	-	
Temp	5	5	-	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	340.0	-	340.0	
Remodel, Reconstruction and Upgrades	6,250.0	20,146.0	26,396.0	
New Construction and Land Acquisition	-	3,240.3	3,240.3	
Equipment and Materials	-	-	-	
Information Systems and Technology	600.0	-	600.0	
Other	3,390.0	6,000.0	9,390.0	
TOTAL CAPITAL	**$10,580.0**	**$29,386.3**	**$39,966.3**	

Department of Commerce, Community, and Economic Development

The mission of the Department of Commerce, Community, and Economic Development (DCCED) is to promote a healthy economy, strong communities, and protect consumers in Alaska. To accomplish this, the department implements programs to

- coordinate, develop, and promote sustainable economic growth;
- assist in the development of sustainable energy systems and reduce the cost of energy in rural Alaska;
- assist communities with achieving maximum local self-government and foster volunteerism statewide; and
- regulate and enforce consumer protection and provide a stable business climate.

The department consists of core agencies including the Divisions of Banking & Securities; Corporations, Business and Professional Licensing; Community and Regional Affairs; Insurance; and Economic Development. Various corporate agencies are also part of the department, including the following: Alaska Industrial Development and Export Authority; Alaska Energy Authority; Alaska Gasline Development Corporation; Alaska Railroad Corporation; Alcohol and Marijuana Control Office; Alaska Seafood Marketing Institute; and the Regulatory Commission of Alaska.

BUDGET SUMMARY

DCCED’s FY18 general fund operating budget submitted by the Governor on December 15, 2016 is $51,862.9 (53.4%) above the FY18 Adjusted Base [a *decrease* of $2,250.5 Unrestricted General Funds (UGF) and an increase of $54,113.4 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. **Banking and Securities – Business Registration Examiner for Licensing: $74.9 GF/Program Receipts (DGF) and 1 PFT Position.** The Governor’s request includes funding for a new Business Registration Examiner position to perform increased licensing and registration functions. The division reports an average increase of 12% in licensing and registrations across all programs. Mortgage loan originators and payday lenders have significant increases of 34% and 33%, respectively. Both of these programs require complex reviews requiring significant time to complete. Without additional staff resources, review of applicants' credit, criminal, and regulatory history will be reduced to allow existing staff to process applications received within existing regulatory timelines. The unique banking impacts of marijuana businesses and crowd funding investment have increased examination and enforcement activities, while other programs have grown in both the number of applicants and the complexity of review processes. The division currently has two Business Registration Examiner positions managing registration and licensing tasks.

2. **Corporations, Business and Professional Licensing (CBPL) – Implementation of the Occupational Licensing Examiner Classification Study: $131.6 Receipt Supported Services (DGF).** In 2013, the Division of Personnel and Labor Relations began a classification study to determine if Occupational Licensing Examiners should be reclassified due to the complexity of the work performed. In December 2016, the study indicated that all Occupational Licensing Examiners should be a range 14 instead of the

previous range 13. This one-range difference increased costs by an average of $4.7 for each of the division's 28 Occupational Licensing Examiners, for a total increase of $131.6. Professional Licensing does not have adequate receipt authority to absorb the increased cost without reducing services.

Legislative Fiscal Analyst Comment: In FY16, Corporations, Business and Professional Licensing was authorized to spend $9,837.0 Receipt Supported Services (RSS) for Professional Licensing. The actual expenditures totaled $9,712.0; leaving an unexpended balance of $125.0 (or 1.3%) at the end of the year. Based on the size of this budget and volatility of receipts, this offers very little flexibility for the licensing programs and boards to make operational decisions.

Legislative Fiscal Analyst Recommendation: In addition to the Governor's requested budget changes, the legislature should consider increasing the level of RSS authorization for Professional Licensing by $500.0.

3. **Alcohol and Marijuana Control Office – Increased Licensing Demands: $280.3 GF/Program Receipts (DGF) and 3 PFT Positions.** The Governor's request includes authorization for two new Occupational Licensing Examiners and one Administrative Assistant II.

   Although two full-time licensing examiner positions were added when marijuana licensing went into effect in May 2015, the department contends that additional staff is needed to adequately review and examine complex marijuana license applications. At the same time marijuana licenses were added, the alcohol licensing workload increased by 20%, primarily in the area of permits for non-licensees (such as catering and special event permits).

   The department also contends that an Administrative Assistant II position is necessary to manage the administrative work associated with the Marijuana Control Board and licensing system. The position will be responsible for website updates, document management, and assistance for administrative appeals in a timely manner, in addition to the more typical administrative duties such as recruitment, travel and waivers, and information requests from the public. It will also be used to support the Investigations section by issuing Marijuana Handler's Permits.

FUNDING REDUCTIONS

4. **Community & Regional Affairs – Reduced Grant Administration and Planning Activities: ($342.8) UGF and (3) PFT Positions.** The Division of Community and Regional Affairs will be deleting two vacant Grant Administrator positions and a Planner III position due to fewer new grant awards and closure of older completed grants. The number of grants managed by the division has declined from over 2,000 in FY15 to just under 1,200 at the end of FY16 (a 40% decrease). In addition, a recent reorganization in the division resulted in the Planner III duties and responsibilities being reassigned to a Local Government Specialist IV position. This change allows the division to operate without a Planner III.

5. **Tourism Marketing – Elimination of Grant Funding in the Operating Budget (Requested in the Capital Budget): ($1,500.0) UGF.** The FY18 Governor's Request eliminates all UGF funding for tourism marketing from the operating budget and requests funding in the capital budget for a tourism marketing grant to the Alaska Travel Industry Association. The marketing plan is designed by the Alaska Tourism Marketing Board, and implemented by the grantee.

   Legislative Fiscal Analyst Comment: Additional information on the capital request is provided below, under the section entitled "Capital Request."

6. **Alaska Energy Authority – Power Cost Equalization (PCE) Program: ($2,500.0) PCE Endow (DGF).** The Alaska Energy Authority (AEA) is requesting a total of $37,855.0 for the PCE program in FY18. This is a $2.5 million reduction in the estimated level of funding compared to FY17. Program costs are expected to decline because of lower fuel costs. As of June 30, 2016, the endowment fund balance was $946.9 million.

Legislative Fiscal Analyst Comment: The request is merely a projection of costs; language in the operating budget bill appropriates from the PCE Endowment fund the amount necessary to pay for the PCE program under the statutory formula. See additional comments under section 10(f) in the discussion of operating language in the FY18 Overview book.

During the 2016 legislative session, Chapter 43, SLA 2016 (SB 196) adopted statutory guidelines for uses of excess earnings of the PCE Endowment Fund. The amount of excess earnings is determined by subtracting anticipated PCE program costs from earnings in the most recently closed fiscal year. The first 30% of the excess earnings remain in the fund and 70% of the excess earnings are available for appropriation as follows:

1) First, up to $30 million (maximum) is allocated to the Community Assistance program.

2) Second, up to $25 million (maximum) is allocated to Rural Energy programs.

FY16 earnings were $8.9 million – $29.7 million *below* FY18 estimated program costs of $38.6 million. No excess earnings are available for the Community Assistance or Rural Energy Programs in FY18. Lastly, SB 196 adjusted the allowable percent payout from the PCE Endowment from seven percent to five percent. Projected program costs continue to be below the statutory formula.

MAINTENANCE OF SERVICES

7. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (2 PFTs from DCCED) and another 68 positions to OIT (1 from DCCED).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the DCCED is $17.3 (all UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request.*

8. **Corporations, Business and Professional Licensing (CBPL) – Occupational Licensing Examiners for Professional Licensing: $175.3 Receipt Supported Services (DGF) and 2 PFT Positions.** During the 2015 legislative session, three new licensing programs (Massage Therapy, Behavior Analysts, and Athletic Trainers) were established and one existing program (Construction Contractors) was significantly expanded to include mandatory licensure of handymen. In FY17, Professional Licensing requested three new Licensing Examiners to meet the increased workload and avoid backlogs. The legislature approved two new positions and funding as a one-time increment. The FY18 Governor's Request adds the two established positions and receipt authority to the base budget. Professional licensing programs are funded through receipts. Licensing fees for each program are set per AS 08.01.065, so revenue collected approximately equals regulatory costs.

Legislative Fiscal Analyst Comment: The November 2016 Professional Licensing Report to the legislature shows that several boards continue to have fees that are not set on a cost recovery basis. However, progress continues to be made by the department to reverse biennium deficits and recover negative carryforward balances. At the end of FY16, 20 out of 40 (50%) professional licensing programs had a deficit; in FY13, 29 out of 37 (78%) had a deficit. The department is utilizing the standardized methodology for setting fees as each licensing program comes up for renewal.

9. Insurance – Reinsurance Program: $55 million Alaska Comprehensive Health Insurance (ACHI) Fund (DGF). The Division of Insurance annually collects approximately $62 million in insurance premium tax receipts. Of that amount, about $5 million associated with workers' compensation premium taxes goes to the Workers' Safety and Compensation Administration Account, which is used for operating costs of the Workers' Compensation Division within the Department of Labor and Workforce Development. Until FY16, the remaining $57 million of excess insurance premium tax receipts went to the general fund. Chapter 5, SSSLA 2016 (HB 374) established the Alaska Comprehensive Health Insurance (ACHI) fund. Under HB 374, insurance premium tax receipts are deposited into the ACHI fund. This reduces unrestricted general fund revenue by approximately $57 million. In FY17, $55 million was appropriated to the division from the ACHI fund for the Reinsurance program, leaving $2 million in the ACHI fund.

HB 374 allows the legislature to appropriate up to the annual estimated balance of the ACHI fund to a newly established Reinsurance program. The Reinsurance program is intended to mitigate the steep increase in premium rates in the individual health insurance market within the State by removing a portion of high risk individuals from the insurance pool. Under the program, Premera, the state's only remaining health insurer in the individual market, will continue as the primary insurer, and will seek reimbursement from the Alaska Comprehensive Health Insurance Fund for those high-cost claims paid. The success of the program was immediately apparent when 2017 rates were released; the average rate increase for 2017 was 7.3%, which is a sharp drop from the nearly 40% increases in the prior two years.

A fiscal note appropriating $55 million to the Division of Insurance for the Reinsurance program was adopted (effective in FY17). The Reinsurance program goes into effect on January 1, 2017 and is operated on a calendar year basis. The department is requesting to repeal the FY17 appropriation to the Division of Insurance and requesting that it be replaced with a multi-year appropriation to address this timing issue as follows:

- $55 million for FY17-FY18 (multi-year) for calendar year 2017
- $55 million for FY18-FY19 (multi-year) for calendar year 2018

10. Alcohol and Marijuana Control Office – FY18 Marijuana Regulation Funding: $1,574.4 Total [$1,049.0 UGF/ $525.4 GF/Program (DGF)]. The FY18 Governor's request continues the same level of total funding for the implementation of marijuana regulation activities as was appropriated in FY17. As program receipts are reliably received, UGF continues to be replaced with program receipts to minimize state support of the program. The sources of funding requested in FY18 reflect this as follows:

- FY17 Appropriation – IncOTI $100.0 GF/ Program Receipts and $1,474.4 UGF
- FY18 Governor's Request - IncOTI $525.4 GF/ Program Receipts and $1,049.0 UGF

The department anticipates that the Alcohol and Marijuana Control Office will be fully self-supported by FY20.

11. **Alaska Energy Authority/ Rural Energy Assistance – Replacement of UGF with PCE Endowment Funding: ($381.8) UGF/ $381.8 PCE Endow (DGF).** The FY18 Alaska Energy Authority's budget request includes the replacement of UGF with PCE Endowment funds for management of the PCE program. An in-depth analysis of the PCE program by the department revealed that some PCE administrative costs have historically been paid by UGF in the Rural Energy Assistance allocation. This fund change will allow the full cost of managing the PCE program (working with rural utilities to ensure regulations compliance and required data collection) to be paid by the PCE Endowment fund.

12. **Alaska Seafood Marketing Institute (ASMI) – Fund Source Change: ($1,000.0) G/F Match (UGF) to $1,000.0 Statutory Designated Program Receipts (SDPR) (Other).** The Alaska Seafood Marketing Institute is funded via an industry-determined seafood marketing assessment (AS 16.51.120), currently set at 0.5 percent of the value of seafood products. This fund source change will replace UGF with SDPR collected from the industry. This change maintains the same level of overall funding as FY17, but reduces UGF by 50% (from $2 million in the FY17 Management Plan to $1 million in FY18).

Legislative Fiscal Analyst Comment: At the end of FY16, AMSI had a carryforward balance of $18.8 million SDPR. ASMI's FY18 requested level of authorization ($16.1 million) exceeds projected FY17 revenue ($9.2 million) by about $7 million. If ASMI spends the amount authorized, the reserve balance could be depleted by the end of FY19.

Legislative Fiscal Analyst Recommendation: Accept the UGF decrement but reject the addition of $1 million SDPR. Also, consider reducing excess program receipt authorization by another $5 million to $6 million.

Although ASMI's total authorization has decreased from $29.6 million in FY14 to $21.6 million in FY18, there are three budget issues concerning ASMI:

1. The potential reduction/loss of federal funding.
2. The decline in UGF authorization (given the State's current fiscal situation).
3. A declining carryforward balance may make it difficult to sustain marketing expenditures.

The legislature may want to work with ASMI to ensure that ASMI's budget is sustainable. Based on FY16 actual expenditures, ASMI's FY18 level of SDPR authorization includes about $6 million of unused authorization. Removing some of the unused authorization would prevent ASMI from over-spending receipts (and drawing down the carryforward balance too quickly). The ASMI board consistently sets annual spending plans lower than the level of appropriate authorization, and ASMI has expressed a desire to maintain excess authorization in order to address an emergency or the loss of federal funding part way through the fiscal year. However, ASMI can request additional SDPR authorization through the Legislative Budget and Audit (LB&A) review process.

OTHER ISSUES

13. Budget Placeholder for Corporations Consolidation/ Co-location: ($1.0) AIDEA Receipts (Other). In March of 2016, the Governor issued Administrative Order 281 which required a review of the processes, activities and budgets of Alaska Housing Finance Corporation, Alaska Energy Authority, and Alaska Industrial Development and Export Authority. Included in the budget request was a placeholder for future reductions projected to be at least $1 million. Changes are still in discussion and budget reductions can be expected from the Governor as the session progresses.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

The Governor's FY18 Department of Commerce, Community and Economic Development capital budget request totals $40 million ($8 million UGF/ $2 million DGF/ $600.0 Other/ $29.4 million Federal Receipts). A summary of the projects follows:

- **Alaska Energy Authority – Rural Power Systems Upgrades: $14,296.0 [$10,466.0 Federal Receipts/ $3,830.0 UGF].** AEA is working in conjunction with the Denali Commission to fund four rural power house upgrade systems in Twin Hills, Port Alsworth, Chefornak, and Adak. Federal funding from the Environmental Protection Agency is also available for Diesel Emissions Reductions Act (DERA) Community Engine Replacement Projects. The Rural Power System Upgrades program concentrates on power production and delivery, including diesel powerhouse, heat recovery and electrical distribution. After completion of the project, the rural utility is required to employ a qualified operator to ensure the system is properly operated and maintained. AEA also provides training technical assistance to assist the community with proper operation of the new facility. State matching funds are required but the percentage depends on whether or not the community is considered distressed.
- **Alaska Energy Authority – Bulk Fuel Upgrades: $12,100.0 [$9,680.0 Federal Receipts/ $2,420.0 UGF].** AEA is working in conjunction with the Denali Commission to fund four bulk fuel tank farm upgrades in Tuluksak, Holy Cross, Venetie, and Nunapitchuk. The Bulk Fuel program upgrades non-compliant bulk fuel facilities in rural communities. A 25% state match is required.
- **Community Block Grants: $6,060.0 [$6 million Federal Receipts/ $60.0 GF Match (UGF)].**
  - <u>Community Services Block Grants: $3,000.0 Federal Receipts</u> – The federal Department of Health and Social Services provides funding to reduce and/or prevent poverty through community based educational activities. Alaska has one designated Community Action Agency, Rural Alaska Community Action Program (RurAL CAP), which can receive the federal pass-through funding.
  - <u>Community Development Block Grants: $3,000.0 Federal Receipts/ $60.0 G/F Match</u> – The federal Department of Housing and Urban Development provides funding for grants (not to exceed $850.0) to municipalities for planning activities, infrastructure projects, and economic development projects that benefit low to moderate-income individuals. A two percent state match is required.
- **Life Alaska Donor Services, Inc. – Donor Program: $80.0 Anatomical Fund (DGF).** Voluntary contributions to the organ donor awareness fund are collected by the Division of Motor Vehicles and deposited into the Anatomical Gift Awareness fund. DCCED awards a

grant to the Life Alaska Donor Services, Inc. for promotion of the donation program (AS 13.50.150). Life Alaska provides tissue distribution to local surgeons, manages the Alaska Donor Registry, and works in partnership with LifeCenter Northwest (a federally designated Organ Procurement Organization based in Washington State) to educate the community about anatomical donation. The Family Services Bereavement program provides ongoing compassionate support to families who have lost a loved one.

- **National Petroleum Reserve – Alaska Impact Grant Program: $3,240.3 National Petroleum Reserve Fund (Fed).** The National Petroleum Reserve - Alaska (NPR-A) program provides grants to communities for public facilities and services. Priority is given to those communities directly or severely impacted by the leases and development of oil and gas within the NPR-A. Funding comes from the US Department of the Interior, Bureau of Land Management as a share of the funds received on leases issued within NPR-A. This request is a placeholder based on FY17; once the grant list is finalized, an amended request will be submitted with the final amount.

- **Grants to Named Recipients (AS 37.05.316)**
  - **Alaska Community Foundation – Statewide Domestic Violence Shelter Improvements: $250.0 UGF.** Grant funding to assist nine shelters across the State with deferred maintenance projects such as completion of electrical and heating system repairs, replacement of non-compliant fuel tanks, and repair of a leaking roof.
  - **Alaska Travel Industry Association Grant for Tourism Marketing and Development: $3,000.0 [$1,350.0 UGF/ $1,650.0 Vehicle Rental Tax Receipts (DGF)].** Prior to FY17, tourism marketing activities were performed by DCCED through an operating budget appropriation. In FY17, those activities were transitioned to an operating grant to the Alaska Travel Industry Association. The FY18 capital budget request includes grant funding to ATIA for Tourism Marketing and Development. On behalf of the State, ATIA will perform duties such as:
    - providing a marketing program for instate, national and international tourism;
    - collecting, analyzing visitor statistics;
    - funding and managing any marketing contracts;
    - marketing and distribution of the Alaska Vacation planner;
    - managing the TravelAlaska website;
    - booth rental and coordination at domestic and international travel fairs;
    - administrative support for the Alaska Tourism Marketing Board; and
    - reporting on activities funded by the grant.

Legislative Fiscal Analyst Comment: Last session, legislative intent directed the Tourism Marketing Board to develop a plan to phase out reliance on UGF for marketing and move towards a self-sustaining program funded by industry. Two letters were delivered to co-chairs of the House and Senate Finance Committees regarding a sustainable funding plan for Alaska destination marketing. The Alaska Travel Industry Association (ATIA) outlined a plan using a Tourism Improvement District (TID) Model that provides a self-assessment framework with a mix of current and new revenue.

Two sources of revenue have been identified by ATIA for funding marketing activities:

- $8 million from a new assessment of one percent on the value of accommodations, tour activities and attractions purchased from the tourism industry; and

- All Vehicle Rental Tax (VRT) Receipts, including $8.8 million currently appropriated to the Departments of Commerce, Community & Economic Development, Natural Resources, and Transportation and Public Facilities.

In FY18, $10.5 million of VRT Receipts is available for appropriation. This FY18 capital request, along with operating appropriations, spends the entire $10.5 million. If VRT Receipts are diverted from present uses, other funding (presumably UGF) will need to replace VRT Receipts in those agencies in order to maintain the same level of services.

- **Hope Community Resources, Inc. – Upgrades to Housing to Meet State Licensing Requirements: $90.0 UGF.** Grant funding to Hope Community Resources, Inc. will fund upgrades at five Licensed Assisted Living Homes throughout the state. The upgrades are necessary to maintain state licenses and continue to operate care homes.

- **Inter-Island Ferry Authority: $250.0 DGF Temp Code (DGF).** Grant funding to the Inter-Island Ferry Authority for operating costs associated with providing daily service between Ketchikan and Prince of Wales Island.

Legislative Fiscal Analyst Comment: The Governor submitted legislation to establish a new Alaska Transportation Maintenance Fund and is using it as the source of funding for this capital project. Since establishment of the fund is contingent upon passage of legislation, Legislative Finance Division is using a placeholder DGF Temporary Code. If the legislation is not adopted, the appropriation will refer to money that does not exist.

- **Marine Exchange of Alaska – Alaska Vessel Tracking System Upgrades and Expansion: $600.0 CVP Tax (Other).** Grant funding to the Marine Exchange of Alaska for the continued build out of Alaska’s “Maritime Safety Net” system and assistance with operating, maintaining, upgrading, and expanding the vessel tracking network. The Marine Exchange of Alaska has built and currently maintains 130 Automatic Identification Sites in Alaska. This requested funding will expand capabilities of the vessel tracking sites by adding weather sensors and radios that can receive and pass on digital selective calls from vessels in distress and continue the progress towards closing gaps in coverage in the Gulf of Alaska, Western Alaska and the Arctic.

- **Reappropriation for Alaska Energy Authority – Electrical Emergencies Program.** The Governor’s capital budget request includes the following reappropriation of the unexpended and unobligated balance, not to exceed $330.0, from the Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding (Sec. 1, Ch. 18, SLA 2014, page 50, lines 25-27) to AEA for electrical emergencies. The Electrical Emergencies program provides technical support when an electric utility has lost, or will lose the ability to generate or transmit power to its customers and the condition is a threat to life, health, and/or property, including freezers full of invaluable subsistence foods.

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Department of Corrections

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$275,884.4**			
FY17 Fiscal Notes	1,441.4			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(3,500.0)			
FY17 Management Plan (GF only)	**$273,825.8**	($2,058.6)	-0.7%	
One-time Items Removed	(11,694.0)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	4,841.5			
FY18 Adjusted Base Budget (GF only)	**$266,973.3**	($6,852.5)	-2.5%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(167.3)			
FY18 Governor's Agency Request (GF only)	**$266,806.0**	($167.3)	-0.1%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Allocation			**$500.0**	
Administrative Services	4,139.8	4,104.1	(35.7)	**4**
Pre-Trial Services	3,281.7	10,209.3	6,927.6	**1**
Community Residential Services	24,371.6	16,812.4	(7,559.2)	**1 & 3**
Substance Abuse Treatment Program	4,937.1	5,437.1	500.0	**1**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	34,534.6	34,534.6	-	**6**
Federal Funds (all allocations)	7,686.0	7,686.0	-	
Total Non-General Funds (all allocations)	**$42,220.6**	**$42,220.6**	**$0.0**	
Position Changes (From FY17 Authorized to Gov)	**1,904**	**1,899**	**(5)**	
PFT	1,904	1,899	(5)	**4**
PPT	-	-	-	
Temp	-	-	-	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$0.0**	**$0.0**	**$0.0**	

Department of Corrections

The mission of the Department of Corrections (DOC) is to provide secure confinement, reformative programs, and a process of supervised community reintegration to enhance the safety of Alaskan communities.

BUDGET SUMMARY

The FY18 Department of Corrections general fund operating budget submitted by the Governor on December 15, 2016 is $167.3 (0.1%) *below* the FY18 Adjusted Base [a *decrease* of $1,167.3 Unrestricted General Funds (UGF) and an increase of $1,000.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

FUNDING INCREASES

1. **Year Two Funding Increases Related to SB 91 (Chapter 36, SLA 2016) Omnibus Criminal Law & Procedure; Corrections: $7.9 million UGF.** The following requests are consistent with adopted fiscal notes that accompanied SB 91 for the Department of Corrections:

   - **Pre-Trial Services: $6,927.6 UGF.** This request will fully fund the new Pre-Trial Services Division which will:
     - conduct mandatory risk assessments on all arrested individuals (approximately 32,000 annually) within 24 hours of their arraignment and make recommendations to the Alaska Court System based on the defendant's risk score;
     - provide pre-trial supervision for all individuals released pre-trial; and
     - coordinate with the Alaska Criminal Justice Commission to track and report on progress and implementation of the legislation.

   Legislative Fiscal Analyst Comment: These measures are intended to reduce the prison population and should ultimately result in a reduction of institutional staffing levels.

   - **Community Residential Centers (CRC) Treatment: $500.0 Recidivism Reduction Funding (DGF).** The fiscal note for SB91 indicated that $500.0 would be needed in FY17 and another $500.0 in FY18 (for a total of $1 million) to fund offender rehabilitation within the CRCs, including treatment for substance abuse and cognitive behavioral disorders.
   - **Substance Abuse Treatment Program: $500.0 Recidivism Reduction Funding (DGF).** The fiscal note for SB91 indicated that $500.0 would be needed in FY17 and another $500.0 in FY18 (for a total of $1 million) to expand institutional rehabilitation for substance abuse treatment and serve more prisoners prior to community release.

   Legislative Fiscal Analyst Comment: SB 91 created a new Recidivism Reduction Fund, which consists of 50% of marijuana tax revenue. The legislature may use the fund for recidivism reduction programs in the Departments of Corrections, Health and Social Services (DHSS) and Public Safety (DPS). Because this was a new tax, the total appropriated in the FY17 fiscal notes was very conservative—$3 million of the anticipated $6 million—with 1/3 allocated each to DOC, DHSS and DPS. FY18 revenue projections are $5.3 million; the FY18 budget allocates a total of $5 million of the funding as follows: $2 million to DHSS, $2 million to DOC, and $1 million to DPS.

FUNDING REDUCTIONS

2. Year Two Reductions Related to SB 91 Omnibus Criminal Law & Procedure; Corrections: ($11,619.0) UGF. The following institutional reductions within the Population Management appropriation are consistent with SB 91 fiscal note #36:

Allocation	Amount	
Inmate Transportation	$	(133.3)
Anchorage Correctional Complex	$	(1,276.7)
Anvil Mountain Correctional Center	$	(263.6)
Combined Hiland Mountain Correctional Center	$	(578.3)
Fairbanks Correctional Center	$	(489.5)
Goose Creek Correctional Center	$	(2,068.0)
Ketchikan Correctional Center	$	(199.5)
Lemon Creek Correctional Center	$	(447.1)
Matanuska Susitna Correctional Center	$	(247.7)
Palmer Correctional Center	$	(3,967.0)
Spring Creek Correctional Center	$	(942.4)
Wildwood Correctional Center	$	(658.8)
Yukon-Kuskokwim Correctional Center	$	(347.1)
Total FY18 Reductions	**$**	**(11,619.0)**

Legislative Fiscal Analyst Comment: In addition to these FY18 (year two) reductions associated with SB 91 fiscal note #36, year one reductions within the Population Management appropriation included ($5,594.6) UGF to the (closed) Palmer Correctional Center (see item #7 below) plus ($1,500.0) UGF associated with the deletion of 100 contract beds from Community Residential Centers (see item #3 below).

3. Reduce Community Residential Centers (CRC) Contracts and Bed Capacity: ($8,059.2) UGF. As a result of underutilized beds (in part due to departmental changes eliminating the placement of unsentenced felons in CRCs), DOC reduced its contract with the Anchorage Consolidated CRC in FY17 by $1,500.0 UGF and 100 beds. Bed vacancies persist and the department will eliminate an additional 200 beds from its current statewide capacity of 669 in FY18 (as of December 31, 2016, the average daily offender count within CRCs was 455). Additionally, DOC is in the process of renegotiating some CRC contracts to reduce the daily bed rate. Beginning in 2017, the average daily rate for CRCs is $105.00.

Legislative Fiscal Analyst Comment: Prior to the 2017 legislative session, DOC had not identified the CRC locations where FY18 reductions would occur.

MAINTENANCE OF SERVICES

4. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (4 PFTs from DOC) and another 68 positions to OIT (1 from DOC).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to DOC is $35.7 UGF. For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request.*

5. **Replace Permanent Fund Criminal Funds in Health and Rehabilitation Services/ Physical Health Care: $9,103.6 Alaska Capital Income Fund (Other)/ ($9,103.6) PFD Criminal Funds (Other).** Permanent Fund Dividend (PFD) Criminal Funds are available for appropriation because convicted felons and third-time misdemeanants are ineligible to receive a PFD. Because available funding depends on the amount of PFDs and the number of affected inmates, the amount of available PFD Criminal Funds is volatile. For FY18, the Department of Revenue calculated the amount available for appropriation to be $12.6 million (~$9 million less than in FY17). Of the $12.6 million available PFD Criminal Funds, $11.2 million is requested in DOC/ (Inmate) Physical Health Care; $1.4 million is requested in the Crime Victim Compensation Fund.

   Legislative Fiscal Analyst Comment: Historically, reductions in available PFD Criminal Funds were replaced with UGF. The Alaska Capital Income Fund was established in FY05 and is customarily appropriated for capital projects.

MENTAL HEALTH TRUST FUNDING

6. **Inmate Health Care/Behavioral Health Care: $387.9 MHTAAR (Other).** All Mental Health Trust Authority Authorized Receipts (MHTAAR) funding in state agencies is removed from the adjusted base and reconsidered by the Alaska Mental Health Trust Authority (AMHTA) each fiscal year (zero-based budgeting). The AMHTA is recommending $387.9 ($117.4 *less* than FY17) in FY18 (including $1.0 in salary adjustments). MHTAAR funding for the Mental Health Trust Disability Justice Initiative includes:

   - $260.0 IncT (FY06-FY18) to continue the Assess, Plan, Identify, & Coordinate re-entry project;
   - $101.9 IncT (FY15-FY19) for a research analyst; and
   - $25.0 IncT (FY13-FY18) to expand training for DOC mental health staff.

OTHER ISSUES

7. **Closure of Palmer Correctional Center (PCC).** In early FY17, DOC shut down the Palmer Correctional Center (capacity~500 inmates), transferring most inmates to Goose Creek Correctional Center, Wildwood Correctional Center and the Pt. MacKenzie Correctional Farm (where 128 beds were recently brought back online). FY17 reductions associated with the PCC

closure total ($5,594.6) while the FY18 reduction of ($3,967.0) is reflected with other SB 91 institutional savings (see item #2 above). $529.6 UGF remains in PCC's base budget to maintain the facility. This includes 2 PFT positions to perform light maintenance plus funding for security and other miscellaneous contracts. All of the remaining permanent full-time positions were transferred or deleted as follows:

- 64 transferred to other areas in order to keep staffing up to recommended levels [per a 2016 Staffing Study performed by Sacramento firm Carter Gable Lee (CGL), http://www.correct.state.ak.us/doc/corrections-staffing-report.pdf];
- 30 transferred to the new Pre-Trial Services Unit (SB 91, Chapter 36, SLA 2016); and
- 5 positions were deleted.

CAPITAL REQUEST

There are two reappropriations requested in Section 11 of the Governor's FY18 capital budget for the Department of Corrections.

- **Underground Storage Tank Upgrades:** (a) The unexpended and unobligated balance, not to exceed $1,850,000, of the appropriation made in sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) is reappropriated to the Department of Corrections for underground storage tank upgrades.
- **Deferred Maintenance, Renovation, Repair and Equipment:** (b) The unexpended and unobligated balance, not to exceed $740,000, after the appropriation made in (a) of this section of the appropriation made in sec. 1, ch. 18, SLA 2014, page 50, lines 25 - 27 (Department of Education and Early Development, State Library, Archives and Museum Facility Construction Funding - $37,500,000) is reappropriated to the Department of Corrections for deferred maintenance, renovation, repair, and equipment.

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Department of Education and Early Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$1,321,255.7**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	6,350.0			
Multi-Years/Specials	500.0			
Vetoes	(11,693.7)			
FY17 Management Plan (GF only)	**$1,316,412.0**	($4,843.7)	-0.4%	
One-time Items Removed	(76,601.6)			
Misc Adjustments	72,619.8			**4**
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	3,681.8			**9**
FY18 Contractual Salary Increases	121.6			
FY18 Adjusted Base Budget (GF only)	**$1,316,233.6**	($178.4)	0.0%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	6,132.1			**8**
FY18 Governor's GF Increments/Decrements/Fund Changes	832.2			
FY18 Governor's Agency Request (GF only)	**$1,323,197.9**	$6,964.3	0.5%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Allocation			**$6,964.3**	
Foundation Program	1,170,334.5	1,176,466.6	6,132.1	**8**
Special Schools	3,532.4	3,563.9	31.5	
State System of Support	1,597.7	1,847.7	250.0	**1**
Teacher Certification	916.5	916.3	(0.2)	
AK State Council on the Arts	708.2	703.7	(4.5)	**5**
Mt. Edgecumbe Boarding School	4,716.2	4,816.2	100.0	**2**
Library Operations	8,022.9	7,997.3	(25.6)	**5**
ACPE Admin & Operations	5,883.7	6,008.7	125.0	**3**
WWAMI Medical Education	2,964.8	3,070.8	106.0	**6**
AK Performance Scholarship Award	11,500.0	11,750.0	250.0	**3**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	62,439.0	57,620.8	(4,818.2)	
Federal Funds (all allocations)	241,959.6	241,157.5	(802.1)	
Total Non-General Funds (all allocations)	**$304,398.6**	**$298,778.3**	**($5,620.3)**	
Position Changes (From FY17 Authorized to Gov)	**333**	**298**	**(35)**	
PFT	311	279	(32)	**5 & 7**
PPT	15	15	-	
Temp	7	4	(3)	**7**

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$0.0**	**$0.0**	**$0.0**	

Department of Education and Early Development

The Department of Education and Early Development (DEED) is responsible for funding and regulating the state's K-12 schools—including ensuring quality standards-based instruction to improve academic achievement for all students—as well as administering school debt reimbursement and grants for school construction/major maintenance. Core services include the following:

- distribute public school funding to school districts and other educational institutions;
- provide fiscal accountability, compliance and oversight;
- develop, implement, and maintain school effectiveness programs; and
- maintain active partnerships for Pre-K through 20 and lifelong learning.

The department also houses commissions and boards (including the Professional Teaching Practices Commission, the Alaska State Council on the Arts and the Alaska Commission on Postsecondary Education) and is responsible for Mt. Edgecumbe High School; EED State Facilities Maintenance; and Alaska State Libraries, Archives and Museums.

BUDGET SUMMARY

The FY18 Department of Education and Early Development general fund operating budget submitted by the Governor on December 15, 2016 is $6,964.3 (0.5%) above the FY18 Adjusted Base – a $6,483.3 (0.5%) increase in Unrestricted General Funds (UGF) and a $481.0 (1.9%) increase in Designated General Funds (DGF). Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

PROGRAM EXPANSION

1. **State System of Support – Innovative Best Practice Initiative: $250.0 UGF.** The Governor's request includes a one-time increment (IncOTI) of $250.0 to the State System of Support allocation to encourage school districts to strengthen and expand innovative student learning opportunities through effective district-level partnerships. The program was reduced by $379.4 in FY17. This increment will be used to reexamine and redefine the program to be more efficient and effective.

   Legislative Fiscal Analyst Comment: A performance review of DEED carried out by the Division of Legislative Audit in early 2016 found that the State System of Support "does not provide adequate services and resources to assist struggling schools." That finding preceded the FY17 decrement to the program. The review recommended that the program be revamped and modernized.

2. **Mt. Edgecumbe High School – Warm Storage and Maintenance Costs for the New Mt. Edgecumbe Aquatic Center: $100.0 UGF.** Construction of the Mount Edgecumbe High School Aquatic Center will be completed and ready to operate in FY18. Fully operating the center is anticipated to cost $583.1 per year, which includes additional personnel. While the department explored options to get other entities to cover a portion of the cost of operating the facility, no agreements are in place. Instead, the department requests $100.0 to cover the cost of keeping the pool winterized but not operational.

3. **Alaska Performance Scholarship (APS) Awards/Alaska Education Grant – Increase Scholarships to Meet Program Demand: $375.0 Higher Education Investment Fund (DGF).** The Alaska Performance Scholarship (APS) program provides scholarships to Alaska high school students who take a more rigorous curriculum, get good grades, and score well on college placement or work ready exams. The APS award total is based on estimated demand for the program. This is the sixth year of the program, and demand is expected to increase. The Governor's budget includes an increment of $250.0 for the APS, increasing the total awards to $11,750.0. The Governor's budget also includes an increase of $125.0 to the Alaska Education Grant, a needs-based grant program that is set in statute to equal half the amount allocated to the APS.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

4. **Pupil Transportation – Maintain Funding at the Reduced FY17 Level.** In FY17, the Governor vetoed $6,350.0 from Pupil Transportation. The funding was prorated to districts. In FY18, the Governor's budget proposes funding the formula at the same amount $72,619.8, which is 8.8 percent (or $6,409.8) below the estimated statutory formula.

5. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services, and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (5 PFT from DEED) and another 68 positions to OIT (1 from DEED).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the Department of Education and Early Development is $49.5 ($30.1 of UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

6. **WWAMI Program Contractual Increase: $106.0 Higher Education Fund (DGF).** The WWAMI (Washington, Wyoming, Alaska, Montana, and Idaho) Program is a multi-state agreement with the University of Washington's School of Medicine. The contract with UW is increasing by $106.0, to a total of $3,070.8.

   Legislative Fiscal Analyst Comment: Using the Higher Education Investment Fund to pay for WWAMI is a non-designated use of the fund. See item 10 below.

7. **Alaska Commission on Postsecondary Education – Delete Vacant Positions: ($625.1) Total and (7) positions.** The Governor's budget eliminates four permanent, full-time positions and three long-term, non-perm positions and associated funding totaling $625.1 [$231.5 Statutory Designated Program Receipts (Other) and $393.6 Interagency Receipts (Other)].

OTHER ISSUES

8. **K-12 Formula Fully Funded: $1.2 billion.** The Governor's budget fully funds the K-12 Formula and does not propose any changes for this item. The statutory base student allocation is $5,930.

9. **Treatment of FY17 Language Increments.** In the FY17 budget, several items were restored by the Conference Committee as one-time language items and included language specifying that the items would be in the FY18 Adjusted Base. These items are:

   - $200.0 for Erin's Law (within Executive Administration)
   - $320.0 for Best Beginnings (within Early Learning Coordination)
   - $500.0 for Parents As Teachers (within Early Learning Coordination)
   - $2,000.0 for Pre-Kindergarten Grants
   - $661.8 for Online with Libraries (OWL)

10. **Use of Higher Education Investment Fund for Non-Designated Purposes: $5,926.3 DGF Total.** The Higher Education Investment Fund (code 1226) is considered a designated fund source. By statute, the fund is to be used for the Alaska Performance Scholarship and the Alaska Education Grant, including the cost of administering the latter program. However, beginning in the FY16 budget, the fund has been used for a variety of non-designated purposes. In the FY18 Governor's budget, it is being used for the following non-designated purposes in DEED:

    - $2,717.3 for School Broadband Access Grants (School BAG);
    - $138.2 for Live Homework Help; and,
    - $3,070.8 the WWAMI Medical Education.

    In addition, $58,287.0 is used to make contributions to State retirement systems.

    All of the above items would normally be funded with UGF. In FY17, only $17.3 million of the $113 million appropriated from the Higher Education Investment Fund was used for purposes designated by statute.

    Legislative Fiscal Analyst Comment: After the draws from the fund in FY17, the end-of-year balance of the fund is estimated to decline from $458.7 million to $347.4 million. If the FY18 Governor's request is approved, the end-of-year balance will fall to an estimated $284.2 million, after investment returns. This balance is not sufficient to sustainably pay for the designated programs, let alone the other non-designated uses of the fund.

Legislative Fiscal Analyst Recommendation: The legislature should use the Higher Education Investment Fund only for designated purposes, or should eliminate it altogether and deposit the remaining balance in the general fund. Using it unsustainably for non-designated purposes hides the true size of the budget.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

The Governor did not request any capital projects for the Department of Education and Early Development.

SCHOOL DEBT REIMBURSEMENT

The school debt reimbursement program is shown on the Debt Service Summary Table in the *FY18 Legislative Analyst’s Overview of the Governor’s Request.* The program was funded at a level sufficient to pay all anticipated FY18 claims for reimbursement.

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Department of Environmental Conservation

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$45,181.2**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	-			
FY17 Management Plan (GF only)	**$45,181.2**	$0.0	0.0%	
One-time Items Removed	-			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	262.8			
FY18 Adjusted Base Budget (GF only)	**$45,444.0**	$262.8	0.6%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(253.9)			
FY18 Governor's Agency Request (GF only)	**$45,190.1**	($253.9)	-0.6%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Allocation			**($253.9)**	
Administrative Services	3,067.1	2,968.0	(99.1)	**1 & 2**
State Support Services	2,035.6	1,850.1	(185.5)	**3**
Air Quality	3,823.3	3,912.8	89.5	**5**
Water Quality	10,305.0	10,246.2	(58.8)	**6 & 7**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	14,445.0	12,801.5	(1,643.5)	
Federal Funds (all allocations)	23,998.9	23,896.6	(102.3)	
Total Non-General Funds (all allocations)	**$38,443.9**	**$36,698.1**	**($1,745.8)**	
Position Changes (From FY17 Authorized to Gov)	**513**	**489**	**(24)**	**1 & 2**
PFT	511	488	(23)	
PPT	-	-	-	
Temp	2	1	(1)	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	250.0	-	250.0	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	5,032.0	20,900.0	25,932.0	
New Construction and Land Acquisition	7,548.0	31,350.0	38,898.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	2,628.7	-	2,628.7	
TOTAL CAPITAL	**$15,458.7**	**$52,250.0**	**$67,708.7**	

Department of Environmental Conservation

The Department of Environmental Conservation (DEC) is responsible for protecting human health and the environment.

BUDGET SUMMARY

The FY18 Department of Environmental Conservation general fund operating budget request submitted on December 15, 2016 shows a $253.9 (0.6%) *decrease* from the FY18 Adjusted Base, with an Unrestricted General Fund (UGF) *decrease* of $1,634.4 (9.7%) and a Designated General Fund (DGF) increase of $1,380.5 (4.8%). Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

1. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (2 PFTs from DEC) and another 68 positions to OIT (14 from DEC).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the Department of Environmental Conservation is $17.2 ($1.5 of UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

2. **Administrative Services – Eliminate Accounting Tech: ($94.4) UGF and (1) PFT Position.** The position, along with associated funding, will be eliminated due to efficiencies gained from the implementation of IRIS, the state's new accounting system.

3. **State Support Services – Savings from Lease Consolidation: ($185.5) UGF.** DEC consolidated office space in Anchorage to one building, which will save $185.5 in lease costs.

4. **Laboratory Services – Fund Source Change to Maintain the Shellfish Biotoxin and Growing Water Testing Program: ($333.7) UGF/ $333.7 Vessel Com (DGF).** Since 2009, the Commercial Passenger Vessel Environmental Compliance (CPVEC) fund has been used to pay for a portion of shellfish biotoxin and growing water testing ($104.7 was used for this purpose in FY17). The Governor's budget request pays the entire cost of the testing program from the CPVEC fund.

   Legislative Fiscal Analyst Comment: Although the CPVEC fund has been used for shellfish testing for several years, Legislative Finance Division believes that this is not a designated use of the fund. Shellfish and shellfish growing waters would require testing whether or not there was a cruise ship industry, and the tests are required regardless of whether there is nearby cruise ship activity. The department sees this as a designated and allowable use because this activity is related to cruise ship impacts that can increase toxin levels. Regardless, the legislature has the authority to appropriate funds for non-designated purposes if it chooses.

5. **Air Quality – Reallocate Costs to Non-UGF Sources and Implement Efficiencies: ($160.5) UGF.** In FY17, the Air Quality Director allocation was eliminated and positions were transferred to the Air Quality allocation. This will allow some activities to be shifted away from UGF to other fund sources. In addition, the department will implement efficiencies to reduce costs. The result will be a loss of flexibility for activities that are not grant-eligible or permit-related.

6. **Water Quality – Replace UGF with Program Receipts: ($800.0) UGF/ $800.0 GF/Program Receipts (DGF).** Water Quality may collect fees for the review and certification of permits required by state and federal law. Water Quality completed a fee study in FY16 and anticipates an additional $800.0 in fee revenue in FY18. This will offset an equivalent amount of UGF.

7. **Water Quality – Reduce Travel and Contractual Services for APDES Permitting and Compliance: ($58.8) UGF.** The department will reduce travel for the Alaska Pollutant Discharge Elimination System (APDES) permitting and compliance program. This will result in fewer compliance inspections outside of Alaska's population centers. Fewer contracts will also reduce the department's ability to bring in technical expertise.

ORGANIZATIONAL CHANGES

DEC consolidated management of the Village Safe Water and Municipal Matching Grant and Loan programs, transferring associated positions from the Facility Construction and Water Quality allocations to the Administrative Services allocation.

CAPITAL REQUEST

The Department of Environmental Conservation's FY18 capital budget, which totals $67.7 million ($12.1 million UGF/ $250,000 DGF/ $3.1 million Other State Funds/ $52.3 million Federal Funds), includes the following:

- **Clean Water Capitalization Grant – Subsidy Funding: $587.7 Alaska Clean Water Fund (Other).** The federal Clean Water Capitalization Grant requires states to issue a portion of the funding as subsidies (a loan forgiveness process).
- **Drinking Water Capitalization Grant – Subsidy Funding: $2,041.0 Alaska Drinking Water Fund (Other).** The federal Drinking Water Capitalization Grant requires states to issue 30% of the funding as subsidies (a loan forgiveness process).
- **Village Safe Water and Wastewater Infrastructure Projects:**
    - **First Time Service Projects: $38.9 million Total [$7,248.0 G/F Match (UGF)/ $300.0 Statutory Designated Program Receipts (Other)/ $31,350.0 Federal Receipts].**
    - **Expansion, Upgrade, and Replacement of Existing Service: $25.9 million Total [$4,832.0 G/F Match (UGF)/ $200.0 Statutory Designated Program Receipts (Other)/ $20,900.0 Federal Receipts].**

These requests provide financial and technical assistance to rural communities to plan, design, and construct water and sewer system improvements. Of the total amount, 60% will provide first-time service to communities and 40% will be used for expansions, upgrades, and replacements of existing service.

- **Prince William Sound Tanker Escort Contingency Plan Review: $250.0 Oil/Haz Fund (DGF).** This is a large one-time project that is outside the normal scope of work of the Spill Prevention and Response Division, as this is the first time this plan has needed review since the original plan was made after the 1989 Exxon Valdez Oil Spill.

Legislative Fiscal Analyst Comment: The legislature should consider making this a multi-year operating item rather than a capital project, as plan review is part of the regular duties of the SPAR division.

Department of Fish and Game

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$70,373.6**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	-			
FY17 Management Plan (GF only)	**$70,373.6**	$0.0	0.0%	
One-time Items Removed	-			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	588.5			
FY18 Adjusted Base Budget (GF only)	**$70,962.1**	$588.5	0.8%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(5,548.2)			
FY18 Governor's Agency Request (GF only)	**$65,413.9**	($5,548.2)	-7.8%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Appropriation/Allocation			**($5,548.2)**	
Commercial Fisheries Appropriation	51,309.5	51,165.7	(143.8)	**2**
Sport Fisheries Appropriation	4,717.4	2,017.4	(2,700.0)	**1**
Wildlife Conservation Appropriation	4,644.9	1,944.9	(2,700.0)	**1**
Statewide Support Svcs/Administrative Services	2,324.6	2,320.2	(4.4)	**3 & 5**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	66,016.9	67,729.1	1,712.2	**1 & 2**
Federal Funds (all allocations)	68,037.7	67,019.5	(1,018.2)	**2**
Total Non-General Funds (all allocations)	**$134,054.6**	**$134,748.6**	**$694.0**	
Position Changes (From FY17 Authorized to Gov)	**1,609**	**1,501**	**(108)**	**2,3,4**
PFT	872	837	(35)	
PPT	684	641	(43)	
Temp	53	23	(30)	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	1,000.0	-	1,000.0	
New Construction and Land Acquisition	750.0	2,250.0	3,000.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$1,750.0**	**$2,250.0**	**$4,000.0**	

Department of Fish and Game

The Department of Fish and Game (DF&G) is charged with protecting and improving the fish, game, and aquatic plant resources of the State, and managing their use and development in the best interests of the economy and the people of the State, consistent with the sustained yield principle.

Core Services:

- **Management:** Provide opportunities to utilize fish and wildlife resources; expand existing and develop new programs to increase harvest opportunities; protect and improve habitat and access to fishing and hunting opportunities and resources; protect the state's sovereignty to manage fish and wildlife resources; optimize participation in hunting and fishing activities; improve harvest monitoring and assessment.
- **Stock Assessment and Research:** Ensure sustainability and harvestable surplus of fish and wildlife resources; improve existing fish and wildlife stock assessment and research capabilities; expand stock assessments; invest in new technologies; anticipate changing conditions (e.g., climate change, invasive species).
- **Customer Service and Public Involvement:** Provide accurate and meaningful information to all customers and involve the public in management of fish and wildlife resources; enhance public communications materials and delivery; improve Boards of Fisheries and Game and other regulatory processes; increase publication in scientific literature; improve management and scientific reporting; improve licensing/permitting services; improve education and viewing programs within the department.

BUDGET SUMMARY

The FY18 Department of Fish & Game general fund operating budget as submitted by the Governor on December 15, 2016 is $5,548.2 (7.8%) *below* the FY18 Adjusted Base [a *decrease* of $5,505.5 Unrestricted General Funds (UGF) and a *decrease* of $42.7 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

1. **Sport Fisheries and Wildlife Conservation – Replacement of UGF with Fish and Game Funding: ($5.4 million) UGF and $5.4 million of Fish and Game Funds (Other).** Per AS 16.05.110, all revenue derived from the sale of fishing, hunting, and trapping licenses and tags is deposited into the Fish and Game Fund. With the passage of Chapter 18, SLA 2016 (HB 137), increases in fees related to sport fishing, hunting, and trapping licenses, king salmon, waterfowl stamps and nonresident big game tags were expected to increase Fish and Game Fund revenue (from the FY16 level) by $2.7 million in FY17 and $9 million in FY18.

   The Governor's FY18 request replaces $5.4 million of UGF with Fish and Game funding. Half of the changes occur in Sport Fisheries ($2.7 million) and half in Wildlife Conservation ($2.7 million). Between FY16 and the Governor's FY18 request, Fish and Game funding has increased by a total of $6.6 million ($3.9 million in Sport Fisheries and $2.75 million in Wildlife Conservation).

2. **Commercial Fisheries Reductions: ($249.7) Total [($108.1) UGF/ ($41.7) DGF/ ($58.9) Federal Receipts/ ($41.0) Other], (1) PFT and (2) PPT**

Positions. The department is reducing funding by a total of $249.7 ($108.1 UGF). The cut will reduce administrative, fishery research, and fishery management staff time and also reduce spending on field projects.

Legislative Fiscal Analyst Comment: Details on the impacts of these reductions were not known at the time of this publication.

3. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and (2) of information technology services. Departments transferred a total of 77 positions to SSoA (2 PFTs from DF&G) and another 68 positions to OIT (1 from DF&G).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to DF&G is $14.3 ($4.4 of UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

4. **Position Deletions.** Between the FY17 Authorized Budget and the FY18 Governor's request, DF&G's positions – mostly vacant – have *decreased* by seven percent (or 108 positions). 63 positions were deleted in the FY17 Management Plan and another 45 in the Governor's request. (35 of the deleted positions are permanent full-time positions.)

Legislative Fiscal Analyst Comment: Details on the impacts of these reductions were not known at the time of this publication.

STRUCTURE CHANGES

5. **Elimination of the State Facilities Rent Allocation.** The Governor's budget transfers all facilities rent funding from the Fish and Game State Facilities Rent allocation to the various divisions in DF&G. The impact of this transfer is that each division (i.e. allocation) will be charged directly for its share of the state facilities rent from its budget.

CAPITAL REQUEST

6. The Governor's FY18 Department of Fish and Game capital budget totals $4 million ($1 million DGF/ $750.0 Other/ $2.25 million Federal Receipts) and a reappropriation of funding from prior projects. Projects requested include:

   - **R/V Resolution Refurbishment and Repair:** $1 million Test Fish Receipts (Other);
   - **Sport Fish Recreational Boating and Angler Access:** $3 million [$2,250.0 Federal Receipts/ $750.0 Fish/Game Funds (Other)]; and
   - **Reappropriation for Vessels and Aircraft Maintenance, Repair and Upgrades:** Reappropriation of various projects not to exceed $500.0.

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Office of the Governor

All Dollars in Thousands

	(GF Only)	Change	% Change	*See Note:*
FY17 Conference Committee (GF Only)	**$24,703.1**			
FY17 Fiscal Notes	-			
CarryForward	3,083.1			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	-			
FY17 Management Plan (GF only)	**$27,786.2**	$3,083.1	12.5%	
One-time Items Removed	(1,236.1)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	307.6			
FY18 Adjusted Base Budget (GF only)	**$26,857.7**	($928.5)	-3.3%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(1,847.0)			**2**
FY18 Governor's GF Increments/Decrements/Fund Changes	(27.9)			**1**
FY18 Governor's Agency Request (GF only)	**$24,982.8**	($1,874.9)	-7.0%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Appropriation/Allocation			**($1,874.9)**	
Executive Operations/ Executive Office	11,331.1	11,303.2	(27.9)	**1**
Elections/ Elections	7,211.8	5,364.8	(1,847.0)	**2**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	867.3	838.3	(29.0)	
Federal Funds (all allocations)	205.0	205.0	-	
Total Non-General Funds (all allocations)	**$1,072.3**	**$1,043.3**	**($29.0)**	
Position Changes (From FY17 Authorized to Gov)	**160**	**153**	**(7)**	
PFT	140	133	(7)	**1**
PPT	-	-	-	
Temp	20	20	-	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$0.0**	**$0.0**	**$0.0**	

Office of the Governor

The Governor's Office is responsible for the operation of the executive branch of Alaska State government, with fiscal and policy duties conferred by the Alaska Constitution and state statutes. The Governor's Office oversees the Office of Management and Budget and the Division of Elections. The Alaska State Commission for Human Rights and the Redistricting Board are included in the Governor's Office for budgetary purposes.

BUDGET SUMMARY

The FY18 Office of the Governor general fund operating budget is $1,874.9 (7%) *below* the FY18 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

MAINTENANCE OF SERVICES

1. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (3 PFTs from the Governor's Office) and another 68 positions to OIT (1 from the Governor's Office).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the Governor's Office is $27.9 (all UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

2. **Statewide Primary and General Elections: $1,847.0 UGF (Multi-year for FY18 and FY19).** Beginning in FY17, the cost of holding elections every two years was divided in half to reduce volatility in the final authorized budget of the Office of the Governor while allowing for sufficient funding to conduct elections. Note that section 17 of the Governor's operating bill appropriates money for a two-year period, so money not spent in FY18—expected to be nearly all of the FY18 appropriation—will be available in FY19. That money will combine with $1.8 million appropriated next year for FY19 and FY20.

ORGANIZATIONAL CHANGES

There are no significant organizational changes requested.

CAPITAL BUDGET

No capital projects were requested.

Department of Health and Social Services

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$1,167,761.4**			
FY17 Fiscal Notes	2,337.8			
CarryForward	6,000.0			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(1,575.0)			
FY17 Management Plan (GF only)	**$1,174,524.2**	$6,762.8	0.6%	
One-time Items Removed	(34,464.8)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	7,395.4			
FY18 Contractual Salary Increases	1,778.5			
FY18 Adjusted Base Budget (GF only)	**$1,149,233.3**	($25,290.9)	-2.2%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(6,785.3)			
FY18 Governor's Agency Request (GF only)	**$1,142,448.0**	($6,785.3)	-0.6%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Appropriation			**($6,785.3)**	
Pioneer Homes	51,477.1	51,477.1	-	
Behavioral Health	90,805.8	87,306.7	(3,499.1)	**1,2,4,5**
Children's Services	92,353.7	91,664.7	(689.0)	**6**
Health Care Services	10,444.1	10,238.9	(205.2)	
Juvenile Justice	53,630.9	53,630.9	-	**11**
Public Assistance	155,440.0	154,873.8	(566.2)	**7**
Public Health	82,400.7	68,820.0	(13,580.7)	**8,12**
Senior and Disabilities Services	47,998.1	42,506.4	(5,491.7)	**9**
Departmental Support Services	17,087.4	16,768.4	(319.0)	
Human Services Community Matching Grant	1,387.0	1,387.0	-	
Community Initiative Grants	861.7	861.7	-	
Medicaid Services	563,071.5	580,637.1	17,565.6	**10,13**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	118,190.0	118,746.3	556.3	**11**
Federal Funds (all allocations)	1,439,395.5	1,463,744.8	24,349.3	
Total Non-General Funds (all allocations)	**$1,557,585.5**	**$1,582,491.1**	**$24,905.6**	
Position Changes (From FY17 Authorized to Gov)	**3,619**	**3,492**	**(127)**	**3,11**
PFT	3,462	3,365	(97)	
PPT	54	47	(7)	
Temp	103	80	(23)	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	250.0	-	250.0	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	1,550.0	-	1,550.0	
Information Systems and Technology	762.9	6,865.7	7,628.5	
Other	-	-	-	
TOTAL CAPITAL	**$2,562.9**	**$6,865.7**	**$9,428.5**	

Department of Health and Social Services

The Department of Health and Social Services (DHSS) promotes and protects the health and well-being of Alaskans through the following activities:

- Provide quality of life in a safe living environment for Alaskans;
- Manage health care coverage for Alaskans in need;
- Facilitate access to affordable health care for Alaskans;
- Strengthen Alaskan families;
- Protect vulnerable Alaskans; and
- Promote personal responsibility and accountable decisions by Alaskans.

BUDGET SUMMARY

The Governor's FY18 Department of Health and Social Services general fund operating budget request is $6,785.3 (0.6%) *below* the FY18 Adjusted Base [an increase of $4,160.8 Unrestricted General Funds (UGF) and a *decrease* of $10,946.1 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column of the preceding spreadsheet.

FUNDING INCREASES

1. **Behavioral Health (BH) Treatment & Prevention Grants – Grants for Re-entry Support Services for Returning Offenders: $1 million Recidivism Reduction Funding (DGF).** Per the second year fiscal note for SB 91, a total of $2 million from the Recidivism Reduction Fund will be added ($1 million in FY17 and another $1 million in FY18) to fund increased access to evidence-based rehabilitation programs and to support offender transition and re-entry. According to the department, approximately 870 additional individuals are expected to be provided re-entry services in FY17, increasing to 2,826 by FY22.

Legislative Fiscal Analyst Comment: SB 91 created a new Recidivism Reduction Fund, which consists of 50% of marijuana tax revenue. The legislature may use the fund for recidivism reduction programs in the Departments of Corrections (DOC), Health and Social Services and Public Safety (DPS). Because this was a new tax, the total appropriated in the FY17 fiscal notes was very conservative—$3 million of the anticipated $6 million in revenue—with 1/3 allocated each to DOC, DHSS and DPS. The FY18 revenue projections are $5.3 million and the Governor's FY18 budget request allocates a total of $5 million of the funding as follows: $2 million to DHSS, $2 million to DOC, and $1 million to DPS.

In FY19, $375.0 of the $2 million will be transferred from BH Treatment and Recovery Grants to BH Medicaid Services because DHSS expects that a portion of the re-entry center services will be billable to Medicaid. The $375.0 will match $1,125.0 of federal Medicaid funding.

2. **Behavioral Health – Opioid Addiction and Substance Abuse Prevention and Treatment Grants: $3 million Federal Receipts.** The federal Substance Abuse and Mental Health Services Administration (SAMHSA) awarded three multi-year grants for the prevention and treatment of opioid addiction, misuse, and overdose in Alaska. The department plans to spend the additional authorization as follows:

- $750,000 annually for three years from the Centers for Disease Control and Prevention's Prescription Drug Overdose Data-Driven Prevention Initiative to combat the opioid overdose crisis through data collection and analysis, policy review, an evaluation of the Alaska Prescription Drug Monitoring Program, and outreach and public education.
- $1 million annually for up to three years from SAMHSA to help expand and enhance medication-assisted treatment in Alaska.
- Up to $1 million annually for five years from SAMHSA to buy and distribute naloxone to first responders and key community partners, and to train them in its use.

The $3 million of additional federal receipt authorization is requested in the following allocations:

- Behavioral Health Treatment and Recovery Grants: $1,185.0
- Alcohol Safety Action Program (ASAP): $280.0
- BH Administration: $130.0
- BH Prevention and Early Intervention: $1,405.0

Legislative Fiscal Analyst Comments:

- Because the department received the award in the fall of 2016, the Legislative Budget and Audit Committee (LB&A) Committee approved a $3 million RPL in October 2016 (for the FY17 budget). The FY18 budget request puts the federal receipts in the base budget.
- During the 2016 session, the department received a $6 million UGF supplemental appropriation for FY16-FY19, to combat Substance Use Disorders [Sec. 9, Ch. 1, 4SSLA 2016 (HB 257)]. According to DHSS, the new opioid grants from SAMHSA can supplement the $6 million UGF but not replace it. The $6 million UGF is for sobering centers, withdrawal management, and/or residential substance use disorder services.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

3. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (3 PFTs from DHSS) and another 68 positions to OIT (1 from DHSS).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the DHSS is $24.4 (all UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request.*

4. **BH Treatment and Recovery Grants – Savings Related to Medicaid Expansion: ($3 million) UGF.** Federal receipts from Medicaid expansion now cover a portion of behavioral health services that had been funded with UGF. Services that are transitioning to Medicaid reimbursement (from UGF grant funding) include services for adults with Serious Mental Illness (SMI grants) and eligible adults with Substance Use Disorders (SUD grants). According to the department, UGF grant reductions will occur through a phased, strategic process in order to stabilize services and avoid service reductions in communities. In FY17, the budget was reduced by $5,779.6 and, with this $3 million reduction, the total savings in Behavioral Health

resulting from Medicaid expansion is $8,779.6 (very close to the $9 million of anticipated savings cited on page 7 of the February 2016 report titled *The Healthy Alaska Plan: A Catalyst for Reform.)*

5. **Behavioral Health Designated Evaluation and Treatment (DET) – Reduced Rates for DET Transport Service: ($862.9) UGF.** Because federal law requires emergency rooms to treat individuals even if they don't have insurance coverage or are unable to pay, the federal government provides funding to hospitals that treat indigent patients through Disproportionate Share Hospital (DSH) programs. This decrement is proposed because Medicaid expansion has resulted in a decline in DSH clients and hospitals are now able to bill Medicaid or insurance companies for services provided.

6. **Office of Children's Services (OCS)/Foster Care Special Need – Replace UGF with Federal Receipts to Reflect Increased Efforts by OCS to Collect Title IV-E Federal Receipts: ($600.0) UGF/ $600.0 Fed Rcpts.** OCS has increased the capacity for Title IV-E federal reimbursement through policy changes in administrative claiming such as:

   - Increased scrutiny over the review process in determining necessary services for children and families served by the OCS;
   - Working to recommend certain services to be provided through Medicaid eligible providers; and
   - Increasing the capacity for federal reimbursement through policy changes and efficiencies in administrative claiming under Title IV-E.

7. **Public Assistance/Child Care Benefits – Reduce Child Care Benefits: ($500.0) UGF.** The Governor's request removes $500.0 of funding from Child Care Benefits. The UGF in Child Care Benefits has been reduced by 6% since FY17 and by 16.3% since FY15.

Legislative Fiscal Analyst Comment: The Governor vetoed $1 million from this program in the FY17 budget. The Child Care Assistance Program provides assistance with child care costs for eligible families who are working or participating in an education or training program. There are three levels of Parents Achieving Self Sufficiency (PASS) daycare assistance recipients.

- PASS I: Parents on Adult Temporary Assistance Program (ATAP)
- PASS II: Parents transitioning off ATAP
- PASS III: Parents who are eligible based on family size and gross income (before taxes).

It is the PASS III recipients (currently about 2,085 non-OCS families) who will be impacted by this reduction. The average amount provided/month is $695.56.

8. **Public Health/Community Health Grants – Delete Community Health Aide Training and Supervision (CHATS) Grants and Reduce Anchorage Project Access: ($1,146.1) UGF.** The Governor's request removes 82% of funding in this allocation (from $1,414.1 to $250.0). While funding for Community Health Aide Training and Supervision (CHATS) grants will be eliminated from this allocation, the CHATS program will be supported with Medicaid funding now available through recent Medicaid Reform Efforts.

   The remaining $250.0 in this allocation will fund a grant to the Anchorage Project Access. This grant was reduced from $1,414.1 to $250.0 in the FY18 budget.

9. **Senior and Disabilities Services/Community Developmental Disabilities Grants – SB 74 Related Savings from Implementation of 1915(i) Medicaid Option: ($5,817.9) UGF.** SB 74 authorizes DHSS to apply for federal waivers and options

to reform the Medicaid program and charges the department with "reducing the cost of…senior and disabilities services provided to recipients of medical assistance under the state's home and community-based services waiver." The 1915(c) option allows DHSS to shift eligible recipients from the 100% general funded Community Developmental Disabilities Grant Program (CDDG) programs to the 50% federal/50% general funded 1915(c) Medicaid option. In FY15, 969 individuals accessed CDDG services with an average cost per recipient of $12,008.04 per individual per year—for a total cost of $11.6 million.

The department expects the 1915(c) option for community developmental disabilities services to be implemented by January 1, 2018. The savings have been pro-rated for FY18.

10. **Medicaid Services – Medicaid Projections: $17.5 million UGF.** Based on fiscal notes attached to SB 74, a total of $17.5 million of UGF savings was expected in the Medicaid program in FY18. However, the department contends that this amount of funding is needed to meet projected increases in Medicaid. The fact that the department is requesting the funding is not a surprise considering the following:

- Health care costs continue to increase;
- Caseloads have grown;
- Medicaid Expansion state match is expected to be $19.7 million in FY18 (and was $7.4 million in FY17); and
- Including the SB74 reductions, Medicaid's budgeted UGF has been reduced by 16.4% ($114.2 million) between FY15 and FY17. The legislature was informed during FY17 budget development that Medicaid reductions were aggressive and may not be achievable.

Legislative Fiscal Analyst Comment: In the FY17 budget, a total of $27 million was decremented ($6.4 million by the Governor and another $20.3 million by the legislature) to reflect a recent Centers for Medicare and Medicaid Services (CMS) policy change allowing for 100 percent reimbursement for transportation and accommodations services instead of the current 50 percent FMAP rate for those services. According to the department's November 15, 2016 Annual Medicaid Reform Report, between February 26, 2016 (the date the CMS policy change was updated) and June 30, 2016, the department saved a total of $1.88 million (half UGF) by retroactively claiming the enhanced Federal Medical Assistance Percentage (FMAP). While there is no mention of FY17 savings in the report, Legislative Finance Division's understanding is that DHSS and CMS are still working through what is reimbursable. Achieving $27 million of federal travel reimbursements in FY17 is unlikely.

ORGANIZATIONAL CHANGES

11. Juvenile Justice – Closure of Two Youth Facilities.

- **Nome Youth Facility – Close the Nome Youth Facility and eliminate one-time funding: ($1,693.9) UGF.** The FY17 budget included one-time funding for the Nome Youth Facility and intent that the Division of Juvenile Justice (DJJ) collaborate with the community of Nome and tribal and public health organizations to transition the Nome Youth Facility from state to local ownership. The department's FY18 budget request decrements the funding and closes the Nome Youth Facility. The FY18 budget request:
  - Decrements the $1,693.9 one-time increment;
  - Transfers $300.0 to Probation Services and $489.3 (with 3 PFT positions) to McLaughlin Youth Center to support increased population;
  - Deletes 15 PFT positions and 3 temporary positions; and

  - Leaves $158.4 of UGF in the allocation to cover the costs of utility bills for the vacated facility.

- **Ketchikan Youth Facility – Close Ketchikan Regional Youth Facility and Delete "Excess" I/A Receipt Authority: ($1,025.7) I/A Rcpts (Other).** In September 2016, DJJ closed the Ketchikan Regional Youth Facility and transferred funding and needed positions to other DJJ allocations. To "clean up the books," the Governor's FY18 budget deletes unneeded I/A Receipt authorization and 15 full-time (who received lay-off notices when the facility closed), one part-time, and two non-permanent positions.

12. Merger of the Emergency Programs allocation with the Health Planning and Systems Development allocation. The FY18 Governor's request creates a new section to address Rural and Community Health Systems by combining the Health Planning and Systems Development allocation with the Emergency Programs allocation. However, the allocation continues to be called "Emergency Programs."

Legislative Fiscal Analyst Comment: The merger of the two allocations has significantly expanded the services provided by "Emergency Programs" to (among other things) the State Office of Rural Health, the Office of Primary Care, emergency medical services, trauma unit, health emergency response, small and critical access hospital improvement, community health centers, healthcare workforce development, rural veterans' healthcare, and the Support Healthcare Access through Repayment Program (SHARP) healthcare loan repayment.

Legislative Fiscal Analyst Recommendation: Given the merger of the two allocations, the legislature may want to consider changing the name of "Emergency Services" to perhaps "Rural and Community Health Services" to more accurately reflect the expanded responsibilities.

OTHER ITEMS

13. SB 74 Medical Assistance Reform (aka Medicaid Reform) Update. During the 2016 legislative session, the legislature passed legislation that added a number of Medicaid reform requirements to AS 47.05.270. Some of the requirements are included below:

- Behavioral health system reform
- Expanding the use of telehealth
- Enhancing fraud prevention, detection, and enforcement
- Reducing the cost of home and community-based services for behavioral health, senior, and disabilities services
- Redesigning the Medicaid payment process
- Pharmacy initiatives
- Referrals to community and social support services
- Electronic distribution of Explanation of Benefits (EOBs) to Medicaid recipients
- Enhanced care management

SB 74 requires the department to submit an annual report to the legislature by November 15 of each year on the status of the statutorily required reforms. The *AK DHSS Annual Medicaid Reform Report* can be found at:

http://dhss.alaska.gov/HealthyAlaska/Documents/2_FY2016_Annual_Medicaid_Reform_Report_11152016.pdf

CAPITAL PROJECTS

14. DHSS has proposed a total capital budget of $9.4 million, which is comprised of $2.55 million of state funds and $6.9 million of federal funds. The four projects requested are listed below.

- **Statewide Electronic Health Information Exchange System: $7,628.5 [$6,864.7 Fed Rcpts/ $762.8 G/F Match (UGF)].** The Health Information Technology for Economic and Clinical Health (HITECH) Act was signed into law on February 17, 2009 to promote the adoption and meaningful use of health information technology. As originally enacted, the HITECH Act stipulates that, from 2011 through 2021, healthcare providers would be offered financial incentives for demonstrating the use of electronic health records. The State of Alaska elected to participate in the Medicaid Provider Incentive Payment Program and DHSS manages the program with annual capital grants. Total authorization of $7.6 million ($762.8 UGF) is needed in FY18 and will be ratcheting down to $3.6 million ($365.2 UGF) through FY22.
- **Emergency Medical Services Match for Code Blue Project: $500.0 G/F Match (UGF).** This project supports communities' purchase of essential emergency medical response equipment. This funding is granted to communities and can generate matching funds of up to $2 million in federal, local, and private funding.
- **MH Deferred Maintenance and Accessibility Improvements: $250.0 MHTAAR (Other).** Capital grant funding offered competitively to providers serving Alaska Mental Health Trust beneficiaries for deferred maintenance, including facility renovation and repair, energy efficiency upgrades, and accessibility improvements.
- **MH Home Modification and Upgrades to Retain Housing: $1,050.0 [$500.0 UGF/ $250.0 AHFC Div (UGF)/ $300.0 MHTAAR (Other)].** This is a competitive capital grant program that provides housing modifications for persons with special needs in order to help people remain in their homes, thus reducing costs of providing supported housing or moving to institutional housing.
- **Reappropriations**
    - **Pioneer Homes Deferred Maintenance, Renovation, Repair and Equipment**: Not to Exceed $773.4 from Various Projects.
    - **Non-Pioneer Home Deferred Maintenance, Renovation, Repair and Equipment:** Not to Exceed $382.1 from Various Projects.

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Department of Labor and Workforce Development

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$58,739.1**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(502.4)			
FY17 Management Plan (GF only)	**$58,236.7**	($502.4)	-0.9%	
One-time Items Removed	-			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	252.9			
FY18 Adjusted Base Budget (GF only)	**$58,489.6**	$252.9	0.4%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(1,142.3)			
FY18 Governor's Agency Request (GF only)	**$57,347.3**	($1,142.3)	-2.0%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Allocation			**($1,142.3)**	
Management Services	358.5	348.5	(10.0)	**2**
Leasing	3,100.3	2,828.9	(271.4)	**6**
Workers' Compensation	5,843.8	5,653.0	(190.8)	**8**
Workforce Development	16,509.5	15,909.5	(600.0)	**5**
Client Services	4,657.6	4,638.3	(19.3)	**9**
Alaska Vocational Technical Center	10,390.9	10,340.1	(50.8)	**7**

Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	20,218.9	20,410.1	191.2	**1 & 2**
Federal Funds (all allocations)	85,680.7	84,337.9	(1,342.8)	**2 & 9**
Total Non-General Funds (all allocations)	**$105,899.6**	**$104,748.0**	**($1,151.6)**	
Position Changes (From FY17 Authorized to Gov)	**803**	**775**	**(28)**	**2,8,9**
PFT	733	710	(23)	
PPT	61	58	(3)	
Temp	9	7	(2)	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$0.0**	**$0.0**	**$0.0**	

Department of Labor and Workforce Development

The Department of Labor and Workforce Development (DOLWD) is responsible for providing safe and legal working conditions and advancing employment opportunities. To accomplish these goals the department provides the following core services:

- statutory and regulatory assistance and enforcement to protect Alaska's workers;
- workforce development to support Alaska hire and economic development; and
- income replacement for injured, unemployed, and permanently disabled workers.

BUDGET SUMMARY

The FY18 Department of Labor and Workforce Development general fund operating budget submitted by the Governor on December 15, 2016 is $1,142.3 (2%) *below* the FY18 Adjusted Base [a *decrease* of $1,668.8 Unrestricted General Funds (UGF) and an increase of $526.5 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. Mental Health Trust Projects in Support of Workforce Programs: $200.0 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).

The following Department of Labor and Workforce Development programs are included in the Governor's FY18 request:

- **Commissioner and Administrative Services/ Labor Market Information: $75.0 MHTAAR (IncOTI)**. These funds will be used to produce a biannual health care workforce profile and needs assessment and to develop tools and analyses to better understand and monitor workforce issues; and
- **Employment and Training Services/ Workforce Services: $125.0 MHTAAR (IncOTI).** This increment will provide funds for a liaison between the Division of Employment and Training Services and the Department of Corrections. The position will partner and collaborate with various partner programs and stakeholders to identify and make available services and opportunities aimed at reducing recidivism.

MAINTENANCE OF SERVICES

2. Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).

In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (5 PFTs from DOLWD) and another 68 positions to OIT (1 PFT from DOLWD).

Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the DOLWD is $39.2 ($20.4 Fed Rcpts/ $10.0 UGF/ $8.8 Other). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

3. **Fund Changes to Maintain Programs: ($340.8) UGF/ $190.8 Wrkrs Safe (DGF)/ $150.0 STEP (DGF).** The following two appropriations will replace UGF with DGF fund sources in order to reduce the draw on unrestricted general funds and maintain services:

- **Labor Standards and Safety/ Occupational Safety and Health** – Switch $190.8 G/F Match (UGF) for $190.8 Workers' Safety and Compensation Administration Account (WSCAA) (DGF). This designated general fund revenue established via statute (AS 23.05.067) is for the administrative expenses of the state's workers' safety programs under AS 18.80.
- **Employment and Training Services/ Workforce Development** – Switch $150.0 UGF for $150.0 State Training and Employment Program (STEP) account funds (DGF) to maintain the Helmets to Hardhats Program, which provides training for transitioning military personnel. This program is dedicated to helping Military Veterans, National Guard, Reserve, retired and transitioning active-duty military members connect to employment and training opportunities in Alaska's construction industry as apprentices learning a trade.

4. **Alaska Vocational Technical Center (AVTEC) – Fund Source Change from UGF to GF/Program Receipts to Support Operations: ($376.5) UGF/ $376.5 GF/Program Receipts (DGF).** The Governor's budget submission includes the following two fund source changes which will enable AVTEC to reduce reliance on unrestricted general funds and substitute GF/Program Receipts. AVTEC's primary mission is to provide market-driven vocational and technical training to prepare state residents for jobs.

- **A $184.4 GF/PR** fund switch from UGF reflects a 7.5% increase for tuition and additional fees to support overall programs in FY18.
- **A $192.1 GF/PR** fund switch from UGF will specifically maintain and allow for revamping of the Culinary Arts program. One full-time AVTEC Instructor position, located in Seward, who is currently responsible for culinary instruction will be supported with receipts generated by the program.

FUNDING REDUCTIONS

5. **Employment and Training Services/ Workforce Development – Reduce Grant Funding for Construction Academy Training: ($600.0) UGF.** In accordance with FY17 legislative intent, the DOLWD reduced the general fund authority supporting the Alaska Construction Academies (ACA) by another $600.0 UGF in FY18. The remaining Construction Academy Training funding, as identified by the department, totals $1,261.1 UGF. By FY21, UGF for this training program is scheduled to be eliminated.

6. **Commissioner and Administrative Services/ Leasing – Savings as a Result of Space Consolidation Efforts: ($271.4) UGF.** After considerable lease consolidation efforts in Anchorage, the department will be able to reduce its 6th and K Street facility lease by 10,600 square feet to realize additional lease cost savings in FY18.

7. **Alaska Vocational Technical Center Reduction in Plumbing and Heating and Construction Programs: ($50.8) UGF.** Work scheduled for two AVTEC instructors will be reduced. The Plumbing and Heating and Construction programs will continue except that training will be offered only once per year rather than twice per year.

8. **Workers' Compensation Savings from Efficiency Efforts: ($190.8) Wrkrs Safe (DGF) and (2) PFT Positions.** Reduce personal services, travel, and contractual services authority. The efficiency efforts will result in the elimination of two vacant positions. The workload of these positions has been absorbed by other positions in this allocation.

9. **Federal Receipt Authority Reductions: ($1,322.4) Fed Rcpt/ ($19.3) G/F Match and (9) PFT Positions.** Decrements to align anticipated revenue collections and spending as follows:

   - Commissioner and Administrative Services/ Labor Market Information: $126.9 Fed Receipts and 2 PFT positions
   - Employment and Training Services/ Workforce Services: $310.9 Fed Receipts and 4 PFT positions
   - Employment and Training Services/ Unemployment Insurance: $365.3 Fed Receipts and 3 PFT positions
   - Vocational Rehabilitation/ Client Services: $538.6 Total [$519.3 Fed Receipts/ $19.3 G/F Match (UGF)]

ORGANIZATIONAL CHANGE

In an ongoing effort to consolidate and streamline administrative services, the Human Resources allocation (with 2 PFT positions) was merged into the Management Services allocation. Both allocations are within the Commissioner and Administrative Services appropriation.

CAPITAL REQUEST

The Governor's FY18 capital budget request provides a reappropriation (not to exceed a total of $550,000) for Deferred Maintenance, Renewal, Repair and Equipment for the DOLWD. This project is designated for deferred maintenance funding for the Alaska Vocational Technical Center's 16 buildings located in Seward.

Department of Law

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$52,968.1**			
FY17 Fiscal Notes	91.3			
CarryForward	1,465.2			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(907.0)			
FY17 Management Plan (GF only)	**$53,617.6**	$649.5	1.2%	
One-time Items Removed	(4,015.2)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	534.8			
FY18 Adjusted Base Budget (GF only)	**$50,137.2**	($3,480.4)	-6.5%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	3,110.4			
FY18 Governor's Agency Request (GF only)	**$53,247.6**	$3,110.4	6.2%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Allocation			**$3,110.4**	
Collections and Support	682.4	-	(682.4)	**5**
Commercial and Fair Business	869.1	919.1	50.0	
Natural Resources	3,305.1	6,895.3	3,590.2	**3**
Reg Affairs Public Advocacy	2,428.5	2,803.5	375.0	**4**
Administrative Services	1,229.3	1,006.9	(222.4)	**2,5,6**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	31,323.4	31,607.0	283.6	**2,5**
Federal Funds (all allocations)	1,301.7	1,489.4	187.7	**1**
Total Non-General Funds (all allocations)	**$32,625.1**	**$33,096.4**	**$471.3**	
Position Changes (From FY17 Authorized to Gov)	**548**	**503**	**(45)**	
PFT	547	503	(44)	**2,5**
PPT	1	-	(1)	
Temp	-	-	-	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$0.0**	**$0.0**	**$0.0**	

Department of Law

The mission of the Alaska Department of Law is to prosecute crime and provide legal services to state government for the protection and benefit of Alaska's citizens. The department represents the State in:

- protecting the safety and physical and financial well-being of Alaskans;
- fostering the conditions for economic opportunity and responsible development and use of our natural resources;
- protecting the fiscal integrity of the State; and
- promoting and defending good governance.

The Criminal Division protects the public by prosecuting violations of state criminal law committed by adults and juveniles, and by placing them under appropriate controls. The Civil Division serves the interest of Alaska's citizens by providing legal counsel to the executive branch in all civil actions. The Administrative Services Division provides the core administrative services that are essential to the day-to-day management of the department.

BUDGET SUMMARY

The FY18 Department of Law general fund operating budget as submitted by the Governor is $3,110.4 (6.2%) above the FY18 Adjusted Base [an increase of $3,485.2 Unrestricted General Funds (UGF)/ and a *decrease* of $374.8 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/ PROGRAM EXPANSION

1. **Criminal Appeals/ Special Litigation – Medicaid Fraud Control Unit: $187.7 Federal Receipts.** Recent Medicaid expansion in the State of Alaska, as well as legislation to expand the criminal and civil enforcement of Medicaid fraud, has increased the workload of the Department of Law's Medicaid Fraud Control Unit (MFCU). Expanded enforcement efforts will require more federal receipt authority.

Legislative Fiscal Analyst Comment: In FY17, the Legislative Finance Division created a fund code (1247 Medicaid Monetary Recoveries) to track appropriations of monetary recoveries (civil penalties, damages, and reasonable attorney fees and costs) used to match federal receipts. The Governor's budget submittal did not include a switch from G/F Match to the new fund code.

Legislative Fiscal Analyst Recommendation: Replace $91.3 used to match federal receipts with fund code 1247.

MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

2. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT**). In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments

transferred a total of 77 positions to SSoA (3 PFTs from Law) and another 68 positions to OIT (1 PFT from Law).

Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the Department of Law is $23.5 ($14.2 UGF/ $9.3 Other). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request.*

3. **Civil Division/ Natural Resources – Restore One-Time Funding for Outside Counsel for Specialized Expertise on Oil, Gas and Mining Issues: $2,125.0 UGF.** The Governor's request includes the restoration of one-time funding (previously in the Oil, Gas and Mining allocation) for representation of the Departments of Revenue and Natural Resources in disputes relating to the collection of oil and gas taxes and royalties. Taxes ($1,184.0) and Royalty Reopeners ($941.0) will be handled in the department's Natural Resources allocation.

4. **Civil Division/ Regulatory Affairs Public Advocacy (RAPA) – In-House Legal Services and Outside Counsel for Specialized Expertise on Pipeline Tariff Issues: $375.0 UGF.** As the department adapts and refines case management under the organizational structure begun in FY17, some work will be brought in-house while contracts with outside counsel and consultant experts having expertise in specialized oil, gas and mining issues will continue to be used as necessary. This increment will provide funding for Pipeline Tariff Proceedings handled by RAPA.

5. **Elimination of Collections Functions.** As part of the Shared Services of Alaska process, the department's collections functions are eliminated in FY18. Agency collections will be migrated to an outside contractor as part of the efficiency efforts led by the Department of Administration's Shared Services Division, and victim restitution collections are transitioned to the Alaska Court System. Two appropriations/allocations are affected by this change as follows:

   - **Civil Division/ Collections and Support:** ($789.5) Total [($314.0) UGF/ ($368.4) GF/Prgm (DGF)/ ($107.1) Interagency Rcpts (Other)] and the deletion of (9) PFT Positions
   - **Administration and Support/ Administrative Services:** ($96.4) GF/Prgm (DGF)

6. **Administration and Support/ Administrative Services – Vacate Lease Space for Juneau Offices: ($111.8) UGF.** Given the current fiscal situation and to better accommodate the reduced number of staff, the Administrative Services Division's Juneau offices will move from a leased facility into the Dimond Courthouse, which is a state-owned facility.

ORGANIZATIONAL CHANGES

Restructuring of the Civil Division is reflected in the Governor's request. The Collections and Support allocation no longer exists due to the elimination of the collections and victim restitution functions. The remaining legal services and assistance that the department provides the Department of Revenue's Child Support Services Division will now be provided by the Commercial and Fair Business allocation. These changes are part of a broader reorganization effort led by the Department of Administration's Shared Services Division.

CAPITAL BUDGET

No capital projects are included for the Department of Law in the Governor's FY18 Capital budget submission.

Department of Military and Veterans' Affairs

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$16,397.1**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(120.0)			
FY17 Management Plan (GF only)	**$16,277.1**	($120.0)	-0.7%	
One-time Items Removed	-			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	100.7			
FY18 Adjusted Base Budget (GF only)	**$16,377.8**	$100.7	0.6%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	210.9			
FY18 Governor's Agency Request (GF only)	**$16,588.7**	$210.9	1.3%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Allocation			**$210.9**	
Office of the Commissioner	2,404.6	2,615.5	210.9	1

Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	14,941.8	10,192.0	(4,749.8)	
Federal Funds (all allocations)	26,245.3	30,995.1	4,749.8	
Total Non-General Funds (all allocations)	**$41,187.1**	**$41,187.1**	**$0.0**	
Position Changes (From FY17 Authorized to Gov)	**275**	**272**	**(3)**	
PFT	272	269	(3)	
PPT	2	2	-	
Temp	1	1	-	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	6,100.0	6,100.0	
TOTAL CAPITAL	**$0.0**	**$6,100.0**	**$6,100.0**	

Department of Military and Veterans' Affairs

The Department of Military and Veterans' Affairs (DMVA) provides military forces to accomplish military missions in the state and around the world; provide homeland security and defense; emergency response; veterans' services; and youth military-style training and education.

BUDGET SUMMARY

The FY18 Department of Military and Veterans' Affairs general fund operating budget submitted by the Governor on December 15, 2016 is $210.9 (1.3%) above the FY18 Adjusted Base [all Unrestricted General Funds (UGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/ PROGRAM EXPANSION

1. **Office of the Commissioner – Rural Engagement – Expand the Alaska State Defense Force: $210.9 UGF.** According to the department, this request to expand rural participation in the Alaska State Defense Force (ASDF) will increase rural community emergency capacity and resiliency, meet Alaska's needs in a changing Arctic, and engage remote communities utilizing a voluntary military force.

   Because the National Guard force structure is dictated by federal authorities, a request for increased troop strength requires considerable lead time. The goal for the ASDF over the next three-to-five years is to expand to a battalion comprised of an 81-member headquarters in Bethel and three 77-person companies. Each of the companies would be composed of 4 or 5-person Scout teams from across Western Alaska, but initially concentrated in the Yukon-Kuskokwim Delta region.

   Requested funding will be used to form and equip an initial force composed of the headquarters team and one company of Scouts. State funding is necessary because federal regulations prohibit using federal funding for the ASDF.

   Legislative Fiscal Analyst Comment: In FY17, the legislature denied a similar request for $1.3 million UGF to expand rural participation in the ASDF. In addition, a capital request for $1 million UGF to purchase equipment supporting the new Bethel Scout Battalion was denied.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

The Governor's FY18 Department of Military and Veterans' Affairs capital budget totals $6.1 million Federal Receipts. A summary of the projects follows:

- **National Guard Counterdrug Support: $100.0 Federal Receipts.** The National Guard Counter Drug Support Program is federally funded and supports law enforcement agencies in drug enforcement operations, assists in training Law Enforcement Officers, and provides community-based drug awareness programs. This funding is primarily used for technological support supplies and/or facility improvements to the program.

- **State Homeland Security Grant Programs: $6,000.0 Federal Receipts.** The State of Alaska receives Homeland State Security Grants from the U.S. Department of Homeland Security for two programs:
  - **The State Homeland Security Program** supports state and local efforts to prevent terrorism and other catastrophic events. Funding is utilized for equipment acquisition and deployment, development of homeland security and/or emergency management plans, and to conduct training and exercises for first responders.
  - **The Pre-Disaster Mitigation Grant Program** provides resources to assist states, tribal governments, and local communities in efforts to implement a sustained natural hazard mitigation program. A portion of the funding is utilized to update or develop hazard mitigation plans for the state or local jurisdictions. The remainder is nationally competitive for hazard mitigation projects. Under this program the Port of Anchorage was selected to receive funding for a fuel terminal relocation and seismic resilience project. This program requires a 25% non-federal cost-share, which is funded by local jurisdictions for competitive projects or through funds from state disaster declarations.

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Department of Natural Resources

All Dollars in Thousands

	(GF Only)	Change	% Change	*See Note:*
FY17 Conference Committee (GF Only)	**$93,789.0**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(351.4)			
FY17 Management Plan (GF only)	**$93,437.6**	($351.4)	-0.4%	
One-time Items Removed	(2,913.1)			**8 & 9**
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	538.3			
FY18 Adjusted Base Budget (GF only)	**$91,062.8**	($2,374.8)	-2.5%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(1,146.4)			
FY18 Governor's Agency Request (GF only)	**$89,916.4**	($1,146.4)	-1.3%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Allocation			**($1,146.4)**	
Administrative Services	2,363.5	2,345.1	(18.4)	**2**
Recorder's Office/UCC	4,545.4	3,795.4	(750.0)	**3**
Oil & Gas	9,565.3	8,695.3	(870.0)	**4**
Mining, Land & Water	22,309.8	23,084.8	775.0	**1 & 5**
Geological/Geophysical Surveys	4,564.8	4,078.8	(486.0)	**6**
Agricultural Development	1,653.3	1,521.3	(132.0)	**7**
North Latitude Plant Material Center	1,331.3	1,666.3	335.0	**8**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	36,467.8	38,509.1	2,041.3	
Federal Funds (all allocations)	21,920.1	24,320.1	2,400.0	
Total Non-General Funds (all allocations)	**$58,387.9**	**$62,829.2**	**$4,441.3**	
Position Changes (From FY17 Authorized to Gov)	**1,020**	**905**	**(115)**	**2-7**
PFT	708	628	(80)	
PPT	217	213	(4)	
Temp	95	64	(31)	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	300.0	2,550.0	2,850.0	
Maintenance and Repairs	2,018.9	4,700.0	6,718.9	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	17,250.0	600.0	17,850.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	400.0	1,800.0	2,200.0	
TOTAL CAPITAL	**$19,968.9**	**$9,650.0**	**$29,618.9**	

Department of Natural Resources

The Department of Natural Resources' (DNR) mission is to develop, conserve and maximize the use of Alaska's natural resources consistent with the public interest. Core services include:

- Fostering responsible commercial development and use of state land and natural resources, consistent with the public interest, for long-term wealth and employment;
- Mitigating threats to the public from natural hazards by providing comprehensive fire protection services on state, private, and municipal lands, and through identifying significant geologic hazards;
- Providing access to state lands for public and private use, settlement, and recreation; and
- Ensuring sufficient data acquisition and assessment of land and resources to foster responsible resource and community development and public safety.

BUDGET SUMMARY

The FY18 Department of Natural Resources general fund operating budget as submitted by the Governor on December 15, 2016 is $1,146.4 (1.3%) *below* the FY18 Adjusted Base. Unrestricted General Funds (UGF) are down by $2,440.4 (4.0%), but Designated General Funds (DGF) are up by $1,294.0. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

NEW PROGRAMS/PROGRAM EXPANSION

1. **Mining, Land & Water – Unified Permit Program: $1,385.0 GF/Program Receipts (DGF).** The Governor's budget includes an increment of $1,385.0 GF/Program Receipts for the final phase of the Unified Permit program, which will support seven PCNs that are currently funded through CIP receipts. This phase will build out the Water Rights processes, complete legacy scanning, and transition into ongoing operations and maintenance of the system. Earlier phases transitioned the division to an electronic permitting system. This phase will decrease permitting backlogs by making the permitting process more efficient. The Division of Mining, Land & Water already collects Program Receipts in excess of the amount used in the budget, and this phase is expected to bring in additional receipts. The ongoing cost will decrease to $819.3 after FY19 and $469.3 after FY21.

Legislative Fiscal Analyst Comment: Utilization of GF/Program Receipts that are currently lapsing to the general fund increases the budget deficit (due to reduced UGF revenue), despite the increment being DGF.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

2. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (3 PFTs from DNR) and another 68 positions to OIT (34 from DNR, which is part of the first phase of the full roll-out).

Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the Department of Natural Resources is $26.2 ($18.4 UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

3. **Recorder's Office/Uniform Commercial Code – Consolidation and Efficiencies: ($750.0) GF/Program Receipts (DGF), (5) PFT and (2) PPT Positions.** The Governor's request continues a consolidation process in the Recorder's Office begun in FY16. Due to electronic recording, fewer offices are needed around the state. This decrement will eliminate positions in Kenai, Palmer, Fairbanks, and Juneau, but the impact to the public will be minimal because offices remain open in those cities. While the reduction is DGF, unspent program receipts will lapse to the general fund, revenue will remain unaffected, increasing UGF revenue and reducing the budget deficit.

4. **Oil & Gas – Division Consolidation to Manage Oil and Gas Resources: ($870.0) UGF and (6) PFT Positions.** This decrement continues a consolidation and reorganization in the Division of Oil & Gas over the past two years due to declining budgets. Six full-time positions will be eliminated, along with associated funding of $870.0. This reduction may reduce the number of lease areas available each year, as well as less ability to draft comments on federal actions.

5. **Mining, Land & Water – Multiple Reductions: ($535.0) UGF and (4) PFT Positions.** The Governor's budget includes four reductions to the Mining, Land and Water budget, totaling $535.0 UGF and eliminating 4 PFT positions:

- **Denali Block Program Reduction: ($76.0) UGF.** The Denali Block is an area of public land along the Denali Highway between Paxson and Cantwell. This decrement will reduce state management of the area, such as the development of new trails, parking, and infrastructure.
- **Consolidate Facility Lease: ($39.0) UGF.** Office space in the Anchorage Atwood Building will be consolidated, reducing the division's lease costs.
- **Mapping and Project Solutions (MAPS) Program Reorganization: ($342.0) UGF and (3) PFT Positions.** The MAPS unit's IT Services section will be eliminated and the duties will be absorbed by other staff. The unit conducts GIS training and creates GIS maps and mapping tools.
- **Municipal Entitlements Reduction: ($78.0) UGF and (1) PFT Position.** The Municipal Entitlements section assists municipal governments on reviewing, identifying and issuing their land entitlements. This decrement reduces the section from four staff to three.

6. **Geological & Geophysical Surveys – Multiple Reductions and New Fee Revenue: ($720.0) UGF, $234.0 GF/Program Receipts (DGF) and (2) PFT Positions.** The Governor's budget includes three reductions to the Geologic and Geophysical Surveys budget, totaling $486.0 UGF, and eliminating 2 PFT positions:

- **Reduce Geologic Publications and Data Distribution Capacity: ($226.0) UGF and (1) PFT Position.** This decrement will eliminate a Publications Specialist position and reduce contractual services and the purchase of supplies.
- **Reduce Travel to Industry Meetings and for Inter-Agency Coordination: ($50.0) UGF.** The division will no longer travel to meetings and conferences, including trade shows intended to attract mineral and energy companies to the state.

- **Delete a Geologist III at the Geologic Materials Center: ($120.0) UGF and (1) PFT Position.** Due to the current low level of oil and gas exploration in Alaska, this decrement will have minimal impact to the public.
- **Reduce Mineral Resources Section Field Analyses and Equipment: ($90.0) UGF.** This decrement will cut funding for assessing Alaska lands for minerals and metals.

In addition, new fees for use of the Geologic Materials Center authorized by Chapter 27, SLA 2016 (SB 170) are estimated to bring in an additional $234.0 in GF/Program Receipts, reducing UGF by the same amount.

7. **Agricultural Development – Reduce Administrative Support: ($132.0) UGF and (1) PFT Position.** One Administrative Officer position will be eliminated, with duties reassigned to other staff.

8. **North Latitude Plant Material Center – Restore Funding to FY17 Level: $335.0 UGF.** In the FY17 budget, $335.0 of the North Latitude Plant Material Center's funding was converted to a one-time increment (IncOTI), and legislative intent directed the department to explore privatization of services or fee increases. The department increased fees by 20%, but this will increase revenue by only $10.0. As a result, the Governor's budget restores the funding as a permanent item.

9. **Parks & Outdoor Recreation – Reduce Unrestricted General Funds Due to Fee Increases: ($500.0) UGF and $500.0 GF/Program Receipts (DGF).** Across-the-board fee increases are estimated to bring in an additional $933.0 in revenue in FY18. The Governor's budget will utilize $500.0 of this to replace UGF. In addition, the FY17 budget made $328.4 of the Parks budget a one-time increment (IncOTI) ($241.2 UGF and $87.2 GF/Program receipts). The Governor's FY18 request does not restore this funding, which will result in reduced staffing in the Delta Junction region and passive management of Fielding Lake and Donnelly Creek State Recreation Sites.

OTHER ISSUES

10. **Agriculture Revolving Loan Program Administration – Sale of Mt. McKinley Meat and Sausage Plant.** The Mt. McKinley Meat and Sausage Plant was taken over by the State in the 1980s as a result of a bankruptcy against a state loan, and was operated by the State for three decades. In 2016, after a number of failed attempts to privatize the plant over the years, the Division of Agriculture found a private buyer. Funding for the plant, which was a one-time increment (IncOTI) of $2 million from the Agricultural Loan Fund, is not in the Governor's FY18 budget request.

ORGANIZATIONAL CHANGES

There were no major organizational changes in FY18.

CAPITAL BUDGET

The DNR FY18 capital budget totals $29.6 million ($300.0 UGF, $250.0 DGF, $19,418.9 Other State Funds, and $9,650.0 Federal Receipts), plus a supplemental capital request of $250.0. The budget includes mostly ongoing projects that do not require general funds, including the Abandoned Mine Lands Reclamation Federal Program and the Federal and Local Government Funded Forest Resource and Fire

Program Projects. In addition, the Exxon Valdez Oil Spill Trustee Council is proposing to purchase three parcels of land for a total of $17,000.0 with EVOS Civil Settlement funds (Other) and fund Parks Habitat Restoration and Protection projects for an additional $2,018.9. The appropriations that require General Funds are:

- **Geologic Mapping for Natural Resource Development: $2,100.0 [$1,800.0 Federal Receipts/ $300.0 G/F Match (UGF)].** This project will leverage federal funds to produce geologic mapping of several regions to spur exploration for minerals and petroleum.
- **Snowmobile Trail Development Program and Grants: $250.0 Snow Machine Registration Receipts (DGF) in each of FY17 and FY18.** In the FY17 budget, the Governor vetoed $250.0 of snowmobile trail development funds. This request includes a supplemental request to reverse the veto, plus the full amount for FY18.

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Department of Public Safety

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$162,818.8**			
FY17 Fiscal Notes	1,000.0			
CarryForward	340.0			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	-			
FY17 Management Plan (GF only)	**$164,158.8**	$1,340.0	0.8%	
One-time Items Removed	(820.0)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	480.0			
FY18 Contractual Salary Increases	1,277.0			
FY18 Adjusted Base Budget (GF only)	**$165,095.8**	$937.0	0.6%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(1,676.7)			
FY18 Governor's Agency Request (GF only)	**$163,419.1**	($1,676.7)	-1.0%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Appropriation			**($1,676.7)**	
Fire & Life Safety	4,252.5	3,832.5	(420.0)	**1**
Alaska Fire Standards Council	238.5	228.5	(10.0)	
Alaska State Troopers	117,137.6	115,916.0	(1,221.6)	**1,2,3**
Statewide Support	16,762.3	16,737.2	(25.1)	**4**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	14,442.2	15,098.0	655.8	**5**
Federal Funds (all allocations)	10,818.0	12,138.0	1,320.0	**6**
Total Non-General Funds (all allocations)	**$25,260.2**	**$27,236.0**	**$1,975.8**	
Position Changes (From FY17 Authorized to Gov)	**842**	**839**	**(3)**	
PFT	817	813	(4)	**1,4,5**
PPT	18	18	-	
Temp	7	8	1	

Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	1,200.0	1,200.0	
TOTAL CAPITAL	**$0.0**	**$1,200.0**	**$1,200.0**	

Department of Public Safety

The mission of the Department of Public Safety (DPS) is to ensure public safety and enforce fish and wildlife laws. The department's core services include the following items:

- perform criminal and traffic law enforcement and investigations;
- manage and perform search and rescue operations for lost and missing persons;
- provide wildlife law enforcement and investigations;
- provide support to rural law enforcement entities;
- provide security to the Alaska Court System, transport inmates to and from court and between correctional institutions, and perform extradition of wanted persons to and from the state;
- provide criminal laboratory and forensic services, administer the statewide Breath Alcohol Program, maintain Alaska's DNA identification system, and provide expert testimony in court proceedings;
- maintain accurate and complete Alaska criminal records and information for use by law enforcement agencies in Alaska and elsewhere; and
- manage building and fire codes (development, adoption, interpretation, and review), conduct building plan reviews of commercial buildings and 4-plex and larger housing units, conduct fire and life safety inspections of priority facilities, and provide law enforcement for the investigation of fires for the crime of arson and property crimes involving fire.

BUDGET SUMMARY

The FY18 Department of Public Safety general fund operating budget as submitted by the Governor on December 15, 2016 is $1,676.7 (1%) *below* the FY18 Adjusted Base [a *decrease* of $2,935.8 Unrestricted General Funds (UGF) and an increase of $1,259.1 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

FUNDING REDUCTIONS

1. Savings Related to Deletion of PCNs and Associated Funding: ($818.9) UGF and (7) PFT Positions.

- **Fire and Life Safety** ($170.0) and (2) PFTs – Due to the deletion of one Building Plans Examiner II and one Fairbanks Office Assistant II, the department expects that turnaround times for initial review of building plans may increase from two weeks to four.
- **Alaska State Trooper Detachments** ($403.1) and (3) PFTs – Duties of the following deleted support positions will be absorbed by existing staff:
    - one of two Anchorage administrative Captain positions;
    - one of two Fairbanks Environmental Services Journey positions; and
    - one Anchorage Criminal Justice Technician.
- **Alaska Wildlife Troopers** ($245.8) and (2) PFTs – two vacant troopers will be deleted (one from Ketchikan and one from Kodiak).

2. **Prisoner Transportation – Fewer Prisoner Transports: ($500.0) UGF.** Pursuant to AS 33.30.081, the Department of Public Safety is responsible for the transportation of prisoners "to and from the court having jurisdiction over the prisoner and for delivering a prisoner to a correctional facility upon temporary or final commitment by a court or upon transfer of a prisoner from one correctional facility to another either inside or outside the state." Two factors are driving these costs down:

- Improved video conferencing (particularly with Nome and Kotzebue); and
- Fewer arrests resulting from Chapter 36, SLA 2016 (SB 91) reforms. Actions contributing to reduced costs include increases in:
  - presumptive citations;
  - citations in lieu of arrest; and
  - arrests followed by release of individuals on their own recognizance.

MAINTENANCE OF SERVICES

3. **Alaska Bureau of Highway Patrol – Replace UGF with Proposed New Transportation Maintenance Fund: $1.5 million DGF Temp Code (DGF)/ ($1.5 million) UGF.** The Governor submitted legislation to establish a new Alaska Transportation Maintenance Fund and is using it to pay for highway patrol activities.

Legislative Fiscal Analyst Comment: Since establishment of the fund is contingent upon passage of legislation, Legislative Finance Division is using a placeholder DGF Temporary Code. If the legislation is not adopted, the appropriation will refer to money that does not exist.

4. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (3 PFTs from DPS) and another 68 positions to OIT (1 from DPS).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to DPS is $25.1 UGF. For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

5. **Commissioner's Office – Transfer Criminal Investigation Unit (CIU): $1.2 million Inter-Agency Receipts (Other) and 9 PFT Positions.** The Department of Revenue (DOR) requested the transfer of its Criminal Investigation Unit (CIU) to the Department of Public Safety (DPS) on the grounds that CIU investigators carry firearms and are more appropriately housed within the DPS reporting structure. The CIU handles Permanent Fund Divident Fraud, Child Support Fraud, and Tax Fraud and employees carry limited special commissions which enable them to assist DPS with enforcement of these types of cases.

PROGRAM EXPANSION

6. Increased Federal Receipt Authority: $1.6 million Federal Receipts.

Increased authority is requested to align with an increase in federal funding:

- **Council on Domestic Violence and Sexual Assault** $1 million – This increment corresponds to the $1 million increase in federal authority CDVSA received through the FY17 RPL process (RPL# 12-7-3004, Legislative Budget and Audit Meeting, October 17, 2016) and will primarily support grants for training and services to victims of violent crimes; and
- **Statewide Information Technology Services** $600.0 – increased federal funding to coordinate, administer, and monitor funds for the Criminal Records and Identification Bureau.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

Marine Fisheries Patrol Improvements: $1.2 million Federal Receipts. Since FY03, this ongoing joint enforcement agreement with the National Marine Fisheries Service has primarily funded equipment and four positions to work with the Alaska Wildlife Troopers to expand its resource patrols.

Department of Revenue

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$29,752.1**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(1,028.3)			
FY17 Management Plan (GF only)	**$28,723.8**	($1,028.3)	-3.5%	
One-time Items Removed	(95.7)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	167.5			
FY18 Adjusted Base Budget (GF only)	**$28,795.6**	$71.8	0.2%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(46.0)			
FY18 Governor's GF Increments/Decrements/Fund Changes	(865.7)			
FY18 Governor's Agency Request (GF only)	**$27,883.9**	($911.7)	-3.2%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Allocation			**($911.7)**	
Tax Division	13,261.4	13,091.9	(169.5)	**4**
Treasury Division	3,754.5	3,380.3	(374.2)	**8**
Child Support Services	8,029.8	7,811.8	(218.0)	**7**
Mental Health Trust Operations	500.0	350.0	(150.0)	

Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	285,839.2	269,013.3	(16,825.9)	**1, 5, 6, 8**
Federal Funds (all allocations)	78,894.5	78,665.5	(229.0)	
Total Non-General Funds (all allocations)	**$78,894.5**	**$78,665.5**	**($229.0)**	
Position Changes (From FY17 Authorized to Gov)	**891**	**859**	**(32)**	
PFT	842	810	(32)	
PPT	32	33	1	
Temp	17	16	(1)	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	1,000.0	-	1,000.0	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	4,000.0	4,000.0	
New Construction and Land Acquisition	4,450.0	-	4,450.0	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	14,900.0	18,200.0	33,100.0	
TOTAL CAPITAL	**$20,350.0**	**$22,200.0**	**$42,550.0**	

Department of Revenue

The Department of Revenue's responsibilities include:

- administration and enforcement of Alaska's tax laws;
- management of the treasury;
- administration of the Permanent Fund Dividend Program;
- collection and distribution of child support; and
- administrative support to the following independent boards and corporations:
    - Alaska Permanent Fund Corporation;
    - Alaska Housing Finance Corporation;
    - Alaska Municipal Bond Bank Authority;
    - Alaska Retirement Management Board; and
    - the Alaska Mental Health Trust Authority.

BUDGET SUMMARY

The FY18 Department of Revenue (DOR) general fund operating budget submitted by the Governor is $911.7 (3.2%) *below* the FY18 Adjusted Base [*decreases* of $761.7 Unrestricted General Funds (UGF) and $150.0 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

PROGRAM EXPANSION

1. **Alaska Housing Finance Corporation - Discharge Incentive Grants: $100.0 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other).** The Alaska Housing Finance Corporation (AHFC) budget includes a temporary increment (IncT) of Mental Health Trust funding to provide transition housing grants for mental health beneficiaries exiting incarceration into community care. The grants will be administered by the Department of Health and Social Services' Division of Behavioral Health, but distributed through the AHFC housing voucher program.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

2. **Shared Service of Alaska Implementation – Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (1 PFT from DOR) and another 68 positions to OIT (10 from DOR).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to DOR is $191.8 ($82.2 UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

3. **Various – Intra-department Shared Services: ($25.7) UGF.** In an effort to expand the Shared Services concept within the department and prepare the agency for the continued implementation of shared services statewide, four positions are being transferred to Administrative Services from Tax, Child Support Services, and Permanent Fund Dividend Divisions to perform the administrative functions across all divisions within DOR. Expected efficiency gains and cross division administrative knowledge will allow for two positions to be deleted. A total of $445.7 of funding is being moved from the Personal Services line to the Services line within the divisions to pay the Administrative Services Division (ASD) for the transferred positions. In addition, ASD has an increment for $445.7 of Interagency (I/A) Receipts. The Treasury Division will also incur a decrement of $25.7 UGF for efficiencies gained as a result of the reorganization.

4. **Tax Division – Delete Revenue Appeals Officer: ($169.5) UGF and (1) PFT Position.** The Tax Division's budget deletes a Revenue Appeals Officer and $169.5 of associated funding. Although previous budget reductions had not impacted the appeals group, given recent turnover, a decision was made to delete a position and spread associated duties within the group.

5. **Alaska Permanent Fund Corporation (APFC) Investment Management Fee Reduction: ($9.4) million PF Gross Receipts (Other).** APFC is requesting a reduction to reflect lower external management fees because (1) more assets are being managed in-house and (2) market performance has been less than the projected mid-case return scenario. This adjustment is intended to bring the budgeted amount more in line with anticipated costs.

6. **Alaska Retirement Management Board (ARMB) Investment Management Fee Reduction: ($12.1) million of Various Retirement Funds (Other).** Similar to APFC, the ARMB external management fees are expected to decline as a result of a further shift to in-house asset management. In addition, a change in the method of paying external managers contributes to declining fees.

   External management fees are currently paid either directly to an external manager, which requires an appropriation from retirement funds, or indirectly via a charge to the externally managed funds themselves (in a manner similar to management charges by mutual funds). DOR is shifting more and more assets to the latter form of payment as it is more efficient and the costs are applied more accurately across assets and to holders of the assets.

7. **Child Support Services Division – Federally Mandated Fee: ($100.0) UGF.** After the collection of the first $500 by the Child Support Services Division (CSSD) for a custodial parent, a federally mandated $25 fee is imposed on that parent. This fee had historically been paid to the federal government by CSSD. Beginning with partial implementation in the FY17 budget, the fee was passed along to the custodial parent for payment and $100.0 UGF was reduced from the CSSD budget. Now at full implementation, another $100.0 UGF is being reduced from the budget and shifted to custodial parents.

OTHER BUDGET ACTIONS

8. **Treasury Division/ ARMB Cost Reallocation: ($348.5) UGF/ $875.3 I/A Receipts (Other):** The continuing reduction in the amount of general fund assets under management by the Treasury Division (e.g. – General Fund, CBR) and the increase in retirement fund balances is causing continuing reallocation of fund management costs from the general fund to

retirement funds. The Treasury Division's budget includes a fund source change of $348.5 UGF to $348.5 I/A Receipts (paid from an increment of $348.5 of various retirement funds in the ARMB budget). The Treasury Division's request also includes an increment of $526.8 I/A Receipts (from the ARMB) that has no corresponding increase in the ARMB budget because the ARMB has sufficient expenditure authority to absorb the increase.

9. **Various – Transfer Nine Investigator Positions to the Department of Public Safety for Officer Commissioning.** Nine Criminal Investigations Unit Investigators are transferred to the Department of Public Safety (DPS) to be commissioned as full Peace Officers as a result of the legalization of marijuana. The officers will reside in the DPS budget, but will work on DOR issues and be paid via RSA from DOR. Investigators from the Tax, Child Support Services, Permanent Fund Dividend, and Criminal Investigations Unit divisions will be transferred. The Criminal Investigations Unit allocation is eliminated and $406.9 I/A Receipts decremented from the budget.

10. **Budget Placeholder for Corporations Consolidation/ Co-location: ($1.0) AIDEA Receipts (Other).** In March of 2016, the Governor issued Administrative Order 281, which required a review of the processes, activities, and budgets of AHFC, Alaska Energy Authority, and Alaska Industrial Development and Export Authority (AIDEA). Included in the budget request was a **placeholder for future reductions projected to be at least $1 million**. Changes are still in discussion and budget reductions can be expected from the Governor as the session progresses.

ORGANIZATIONAL CHANGES

There are no significant organizational changes.

CAPITAL REQUEST

The Governor's FY18 Department of Revenue capital budget totals $42.55 million ($19.2 million General Funds, $1.15 million Other State Funds and $22.2 million Federal Receipts). The budget contains projects entirely for the AHFC. The requested $19.2 million of general funds includes $13.5 million AHFC Dividend (UGF) and $1.5 million of Alcohol and Other Drug Treatment and Prevention Funds (DGF). Notable projects include:

- Supplemental Housing Development - $3 million UGF
- Cold Climate Housing Research Center - $1 million UGF
- Rental Assistance for Victims - Empowering Choice Housing Program - $1.5 million DGF
- Teacher, Health, and Public Safety Professionals Housing - $1.75 million UGF
- Homeless Assistance Program (Mental Health) - $6.85 million UGF; $950.0 MHTAAR (Other)

Details of each project can be seen on the Legislative Finance Division website.

Department of Transportation and Public Facilities

All Dollars in Thousands

	(GF Only)	Change	% Change	*See Note:*
FY17 Conference Committee (GF Only)	**$283,152.3**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	(911.9)			
FY17 Management Plan (GF only)	**$282,240.4**	($911.9)	-0.3%	
One-time Items Removed	(2,000.0)			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	2,223.8			
FY18 Adjusted Base Budget (GF only)	**$282,464.2**	$223.8	0.1%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(9,900.6)			
FY18 Governor's Agency Request (GF only)	**$272,563.6**	($9,900.6)	-3.5%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	**FY18 Adjusted Base Budget (GF Only)**	**FY18 Governor's Request (GF only)**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Appropriation			**($9,900.6)**	
Administration and Support	14,674.4	13,864.2	(810.2)	**6**
Design, Engineering and Construction	2,057.3	2,036.1	(21.2)	
Highways, Aviation and Facilities	126,969.8	120,402.0	(6,567.8)	**6,7,8,9**
Marine Highway System	138,762.7	136,261.3	(2,501.4)	**4,8**

Non-General Fund Agency Summary	**FY18 Adjusted Base Budget**	**FY18 Governor's Request**	**Change from FY18 Adj Base to FY18 Governor's Request**	**See Note:**
Other State Funds (all allocations)	302,644.7	306,651.6	4,006.9	**2,3,6,7,9**
Federal Funds (all allocations)	2,045.3	2,045.3	-	
Total Non-General Funds (all allocations)	**$2,045.3**	**$2,045.3**	**$0.0**	
Position Changes (From FY17 Authorized to Gov)	**3,695**	**3,357**	**(338)**	**2,3,4,5**
PFT	3,107	2,881	(226)	
PPT	380	339	(41)	
Temp	208	137	(71)	

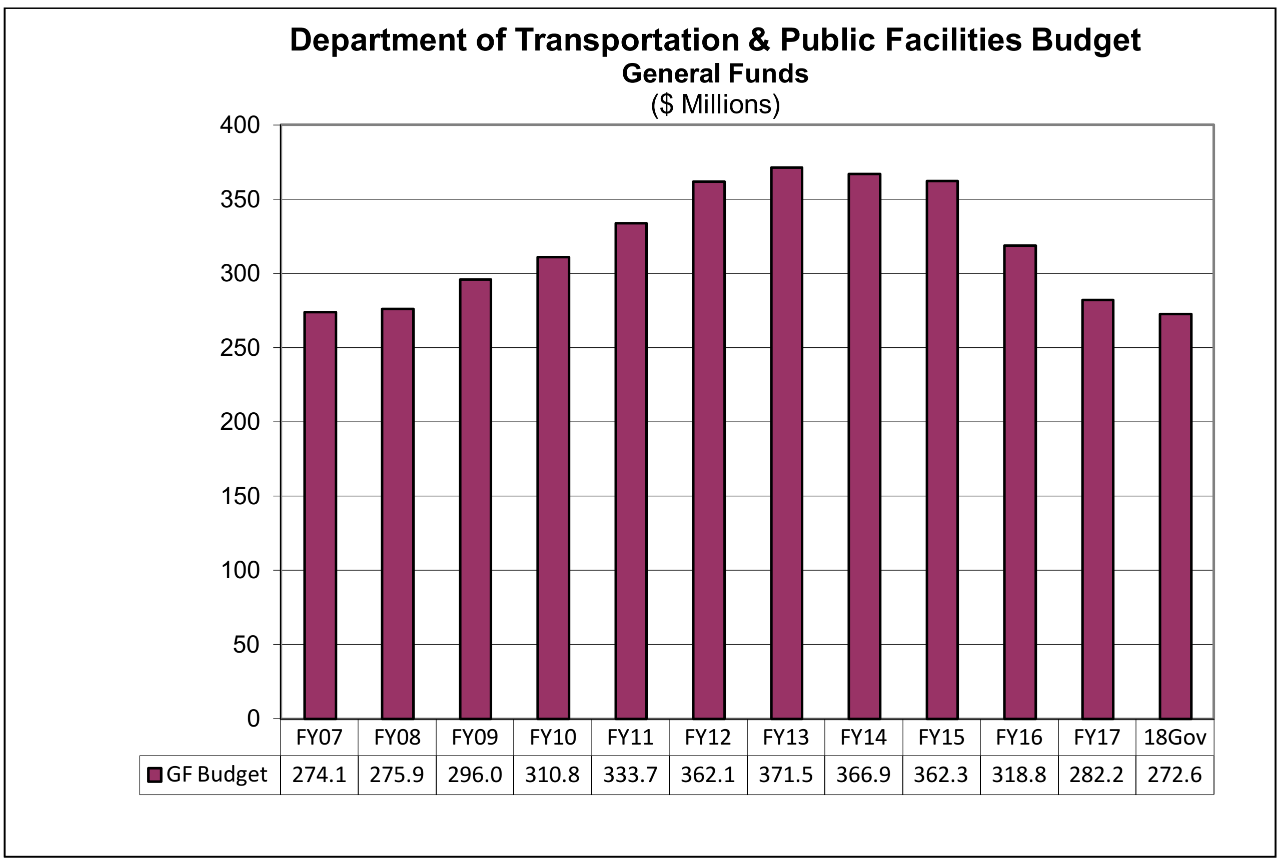
Governor's Capital Request	**State Funds (GF + Other)**	**Federal Funds**	**Total**	**See Note:**
Planning and Research	-	-	-	
Maintenance and Repairs	12,000.0	-	12,000.0	
Remodel, Reconstruction and Upgrades	107,100.0	832,500.0	939,600.0	
New Construction and Land Acquisition	22,000.0	222,000.0	244,000.0	
Equipment and Materials	2,300.0	10,000.0	12,300.0	
Information Systems and Technology	-	-	-	
Other	111.8	13,500.0	13,611.8	
TOTAL CAPITAL	**$143,511.8**	**$1,078,000.0**	**$1,221,511.8**	

Department of Transportation and Public Facilities

The Department of Transportation and Public Facilities (DOT&PF) is responsible for planning, research, design, construction, operation, maintenance, and protection of all state transportation systems and many public facilities. This includes approximately 242 state-owned airports, 5,612 centerline miles of state roads, 731 buildings ranging from maintenance shops to state office complexes, and 21 ports and harbors. In addition, the department owns and operates the Alaska Marine Highway System (AMHS). The department also owns and operates the State Equipment Fleet, which provides full maintenance support and replacement activities for all departments and state agencies, for approximately 8,050 light and heavy duty vehicles and attachments.

BUDGET SUMMARY

The FY18 Department of Transportation and Public Facilities (DOT&PF) general fund operating budget submitted by the Governor is $9.9 million (-3.5%) *below* the FY18 Adjusted Base [a decrease of $74.7 million Unrestricted General Funds (UGF) and an increase of $64.8 million Designated General Funds (DGF)]. Significant budget issues are highlighted in the notes that follow and correspond to the numbers in the last column on the preceding spreadsheet. A historical perspective of the general fund budget is provided in the table below.



PROGRAM EXPANSION

1. **International Airport System Increments: $2.59 million International Airport Revenue Funds (Other).** The Governor's budget includes several increments for

the Anchorage International Airport (AIA) and Fairbanks International Airport (FIA). Significant items are listed below:

- **Feasibility Study for a Maintenance, Repair and Overhaul Facility (MRO) at AIA: $400.0.** The MRO facility would allow for the maintenance and repair of large 747-type aircrafts (the aircraft model used by the majority of air cargo operators).

> **Legislative Fiscal Analyst Comment:** This is included in the operating budget as a one-time increment (IncOTI), but may be more appropriately placed in the capital budget. Feasibility studies are often in the capital budget as part of preliminary planning for capital projects.

- **Utilities and Escalator/ Elevator Contract Increases: $550.0.** AIA is requesting $350.0 for utility cost increases that have been previously absorbed. In addition, the contract costs for escalator, elevator, and baggage handling systems maintenance has grown as the systems have aged; $200.0 is requested for the increased maintenance costs.

- **Deicing Chemicals: $1 million.** Environmental Protection Agency (EPA) mandates forced the International Airport System to switch from urea based chemicals to sodium acetate in the FY13 budget. The cost of the chemicals has increased 50% since 2012. With the addition of runway surface area and the rising cost of the commodity, $1 million is potentially needed at AIA for FY18. The FY17 budget is $4.55 million and FY16 actuals were $4 million.

> **Legislative Fiscal Analyst Comment:** An additional $1 million of expenditure authority increases the budget for deicing chemicals to $5.55 million. This is over $1.5 million above FY16 actuals. A look at FY17 actuals to date and projections for the remainder of the year may be prudent.

- **Wildlife Hazard Management and Security Services: $500.0.** AIA has an increment comprised of $130.0 for contract increases to mitigate wildlife hazards and $370.0 for increased costs of security services.

> **Legislative Fiscal Analyst Comment:** The International Airport System budget is unique in that revenue of the system is mandated by the Federal Aviation Administration (FAA) to be spent within the system. In addition, the system is essentially self-governed and “policed” by the airline user group. The legislature’s role may seem limited given these factors, and in fact, appropriations for the airport do not generally receive the same scrutiny as other state programs/entities funded with general funds. However, there is incentive to constrain the airport budget - lower costs lead to lower landing fees, which translate to a cheaper operating environment for the airlines / cargo industry and thus an attractive place to do business. Anchorage is a primary cargo hub for the world.

FUNDING REDUCTIONS

2. Privatize Federal Program Design: ($4,552.9) Total Funds [$4,531.7 Capital Improvement Project (CIP) Receipts (Other)/ $21.2 UGF] and (76) Positions.

DOT&PF has begun efforts to dramatically increase the privatization of the design phase for capital projects. The Governor’s FY18 budget eliminates 76 positions (34 PFT, 11 PPT, and 31 Temp) and $4.6 million in this regard (see table below). The intent of the administration is to utilize private contractors instead of government employees, so that the design phase can be readily scaled up or down based on the level of federal funding. The agency currently contracts for over 55% of design work and intends to be fully privatized (100%) by FY19.

Federal Design Phase Positions Reduction					
Allocation	**UGF**	**CIP Receipts**	**PFT**	**PPT**	**Temp**
Northern Region Support Services	-	-	(1.0)	-	-
Program Development and Stwd Planning	-	(182.9)	(2.0)	-	(2.0)
Statewide Public Facilities	-	(200.0)	(2.0)	-	(2.0)
Statewide Design and Engineering	-	(629.3)	(5.0)	-	(1.0)
Harbor Program Development	(21.2)	(281.0)	(2.0)	-	-
Central Design and Engineering	-	(1,102.7)	(9.0)	(2.0)	(15.0)
Northern Design and Engineering	-	(910.9)	(8.0)	-	(3.0)
Southcoast Design and Engineering	-	(146.0)	(1.0)	-	(3.0)
Central Region Construction & CIP Support	-	(227.6)	(1.0)	(2.0)	-
Northern Region Construction & CIP Support	-	(221.6)	(1.0)	(2.0)	(5.0)
Southcoast Region Construction	-	(629.7)	(2.0)	(5.0)	-
Total	(21.2)	(4,531.7)	(34.0)	(11.0)	(31.0)

Legislative Fiscal Analyst Comment: Although not directed at federal design work, recent legislative intent language has directed the agency to contract with private entities when the State would save money. It is unclear that full privatization of the design phase would generate cost savings to the State. Private contractors are not always a less expensive alternative, especially in an overheated market; and they may not always have the State's best interest at heart.

Another potential issue is that Alaska's engineering and design market is only so big - Alaska jobs could potentially be lost to out-of-state contractors. DOT&PF was asked to estimate the portion of currently-outsourced design work that is performed by out-of-state contractors. The answer could be important to the analysis of the impacts of this budget proposal.

3. **Knik Arm Crossing Dissolution: ($736.4) CIP Receipts and (6) PFT Positions.** In late June of 2016, the Governor announced the halting of the Knik Arm Crossing project. His FY18 operating budget reflects this action by removing all operations funding for the project. CIP receipt authority totaling $971.5 is redistributed to other components within the agency and a decrement is included for the remaining $736.4 CIP Receipts. Six PFT positions are also deleted.

The project is currently being finalized for closeout with the Federal Highway Administration. Repayment of federal expenditures on the project is not expected to be required. There might be an issue with purchased right-of-way (ROW), but DOT&PF has a 20-year window to utilize that ROW before there is a potential requirement for federal repayment.

Legislative Fiscal Analyst Comment: With project closure, $5 million UGF will now be available for reappropriation or lapse to the general fund. Existing federal expenditure authority will likely be lapsed by the agency and any federal revenue that was programmed for the project will be reprogrammed for other projects in the State Transportation Improvement Program (STIP).

4. **Alaska Marine Highway System (AMHS) Service Level Reduction: ($2,501.4) UGF and (177) Positions.** The Governor's FY18 budget includes two decrements for AMHS – ($2,018.9) UGF to Vessel Operations and ($482.5) UGF to Vessel Fuel. In addition, a $2 million one-time appropriation in the FY17 budget (from the AMHS Fund) has been removed (in the FY18 Adjusted Base), thereby reducing general funds to AMHS by $4.5 million total in the proposed FY18 budget. Impacts of this funding level would be a reduction in the number of weeks of vessel service from 335.1 in FY17 to 333.9 in FY18 – a decrease of 1.2 weeks.

The operating plan shows routes identical to those in FY17, but frequency of service will be reduced. Neither the *Chenaga* nor *Taku* will provide service and a total of 177 vessel positions are to be deleted. Laying up the *Taku* is expected to save just over $3 million per year, and the *Chenega* another $1 million.

The agency is currently going through union processes for removing employees from positions on the *Taku* and *Chenega*. However, given vacant positions in the ranks of all three maritime unions (partially through natural attrition), no employee is expected to actually be laid off from state service. Though many will likely face downgrades in their job class.

Furthermore, the first Alaska Class Ferry, M/V *Tazlina*, is projected to be delivered in January 2018, which will require the establishment of day and night cleaning and maintenance crews.

The table below provides some history and projections for the AMHS budget and fund balances.

1	(thousands)	Actual	Actual	Actual	Actual	Estimated	Governor	Difference
2	**Description**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**FY17-18**
3	**Service Weeks**	403.8	376.6	378.3	355.9	335.0	333.9	(1.1)
4	**Revenue Ratio (AMHS Revenue/ Revenue+UGF)**	32%	31%	33%	33%	38%	38%	0%
5								
6	**Cash Flow**							
7	**Operating Sources**							
8	AMHS Generated Revenues	53,234.0	50,877.0	53,896.0	47,158.0	53,626.3	51,758.8	(1,867.5)
9	Restricted Revenues (CIP Rcpts)	1,047.0	892.0	896.0	603.0	1,835.1	1,850.0	14.9
10	GF Appropriations (base budget)	111,464.4	111,389.9	107,781.6	94,958.0	88,716.7	85,435.1	(3,281.6)
11	Alaska Transportation Maint. Fund	-	-	-	-	-	2,354.8	2,354.8
12	Transfer from Capitalization	-	-	-	-	-	-	-
13	Fuel Trigger Appropriation	12,295.6	5,440.1	4,808.4	-	-	-	-
14	Excess Fuel Trigger Appropriation	-	-	7,179.0	-	-	-	-
15	Total Sources	178,041.0	168,599.0	174,561.0	142,719.0	144,178.1	141,398.7	(2,779.4)
16								
17	**Operating Uses**							
18	Vessel Operations (less fuel)	115,635.0	113,196.0	112,120.0	106,661.0	101,325.4	98,880.9	(2,444.5)
19	Vessel Fuel Base	30,312.6	28,913.6	26,401.0	16,634.0	20,706.1	20,223.6	(482.5)
20	Fuel Trigger	6,139.4	3,052.4	-	-	-	-	-
21	Shoreside/ Other	17,986.0	18,426.0	19,845.0	18,606.0	18,865.7	19,006.8	141.1
22	Operating Expenses	170,073.0	163,588.0	158,366.0	141,901.0	140,897.2	138,111.3	(2,785.9)
23	Support Services-DOT/DOA	2,454.0	2,434.0	2,431.9	3,280.9	3,280.9	3,287.4	6.5
24	Transfer to Capitalization Acct	-	-	-	-	-	-	-
25	Total Uses	172,527.0	166,022.0	160,797.9	145,181.9	144,178.1	141,398.7	(2,779.4)
26								
27	**Operating Suplus/(Deficit)**	**5,514.0**	**2,577.0**	**13,763.1**	**(2,462.9)**	**-**	**-**	**-**
28	Traditional Fund -Draw	-	-	-	2,462.9	-	-	-
29	Remaining Deficit	-	-	-	-	-	-	-
30	Capitalization Acct - Draw	-	-	-	-	-	-	-
31	Remaining Deficit	-	-	-	-	-	-	-
32								
33	**Fund Balances**							
34	**Traditional Fund**							
35	BOY Balance	1,544.0	4,568.0	7,145.0	20,908.1	18,445.2	18,445.2	-
36	Deposits	5,514.0	2,577.0	13,763.1	-	-	-	-
37	Withdrawals	(2,490.0)	-	-	(2,462.9)	-	-	-
38	EOY Balance	**4,568.0**	**7,145.0**	**20,908.1**	**18,445.2**	**18,445.2**	**18,445.2**	-
39								
40	**Capitalization Acct**							
41	BOY Balance	14,154.0	16,644.0	2,644.0	2,644.0	2,630.1	2,630.1	-
42	Deposits	2,490.0	-	-	-	-	-	-
43	Withdrawals	-	(14,000.0)	-	(13.9)	-	-	-
44	EOY Balance	**16,644.0**	**2,644.0**	**2,644.0**	**2,630.1**	**2,630.1**	**2,630.1**	-
45								-
46	**Total Fund Balance**	21,212.0	9,789.0	23,552.1	21,075.3	21,075.3	21,075.3	-

Legislative Fiscal Analyst Comment: There are several items to note from the AMHS table – revenue for FY17 ($53.6 million) is projected much higher than FY16 ($47.2 million) – a difference of $6.5 million. This is primarily the result of a difficult FY16 – new schedule and higher than normal mechanical failure; and a much improved FY17 – stable schedule and increased tariff structure. For FY18, revenue is projected down $1.9 million as a result of the decreased operating weeks and the modified vessels providing service and the frequency of that service.

Another item of note is the sizable AMHS Fund balance – projected at $21 million ending FY17 and FY18 given the Governor's FY18 budget. As previously mentioned, $2 million was appropriated from the balance of the fund (as an OTI) for FY17. This is currently not expected to be utilized, given the general fund authorization provided. The legislature could reduce FY17 general fund authorization (via negative supplemental), thereby forcing AMHS to utilize the AMHS fund authorization. Alternatively, the FY18 budget could be modified to utilize some amount from the fund (again as a one-time appropriation). Further discussion should be had with regard to the balance and how it is best utilized. Given the one-time nature of the funding, it might be better utilized in the capital budget for the annual AMHS vessel overhaul capital appropriation.

MAINTENANCE OF SERVICES

5. **Transfers to Shared Services of Alaska (SSoA) and Office of Information Technology (OIT).** In order to provide internal services at a reduced cost, the Executive Branch will implement phased consolidation of (1) cross-department services such as travel, accounts payable, P-Cards, procurement, facilities management, collection of delinquent accounts and centralized mail and print services and of (2) information technology services. Departments transferred a total of 77 positions to SSoA (34 PFTs from DOT&PF) and another 68 positions to OIT (1 from DOT&PF).

   Departments have decremented a total of $763.8 ($332.8 UGF) in the FY18 budget. This represents a 10% cut related to transferred positions with the remaining 90% of funding transferred to the contractual line to fund Reimbursable Services Agreements with the SSoA. The FY18 share of savings attributable to the DOT&PF is $271.7 ($41.6 of UGF). For more information, see the Operating Budget Overview in the *FY18 Legislative Fiscal Analyst's Overview of the Governor's Request*.

6. **Expanded Use of CIP Receipts in Lieu of General Funds: ($1,131.1) UGF/ $1,131.1 CIP Receipts (Other**). Several million dollars of general funds have been replaced with CIP Receipts in the DOT&PF operating budget in recent years. The Governor's FY18 budget continues this trend by replacing another $1.1 million general funds with $1.1 million CIP Receipts. The allocations where this occurs are in the table below.

Replacement of GF with CIP Receipts	
Allocation	UGF
Statewide Administrative Services	(250.0)
Human Resources	(100.0)
Statewide Procurement	(81.1)
Southcoast Region Support	(100.0)
Central Region Highways and Aviation	(200.0)
Northern Region Highways and Aviation	(300.0)
Southcoast Region Highways and Aviation	(100.0)
Total	(1,131.1)

As general funds have become scarcer, the agency has continued to identify eligible indirect costs associated with their direct capital spending. These previously unidentified costs are incorporated into their federally approved indirect cost allocation plan (ICAP). The average weighted ICAP rate (across the various transportation modes) has only risen about 1% from FY04 to FY15, however, direct capital spending over that period has increased from $716 million to over $1 billion. Likewise, eligible ICAP expenditures have increased over $23 million during that period (see table below).

State Fiscal Year	Total ICAP Eligible Expenditures	Difference from prior year	Total Direct Costs (Capital Expenditures)	Difference from prior year	Average Single Rate *	Difference from prior year
2015	51,884,714	6%	1,043,856,551	5%	4.97%	0.08%
2014	48,733,708	8%	996,026,590	12%	4.89%	-0.18%
2013	45,268,117	5%	893,233,784	4%	5.07%	0.05%
2012	43,256,192	4%	862,267,037	-8%	5.02%	0.61%
2011	41,465,183	1%	941,751,636	-6%	4.40%	0.30%
2010	41,056,142	1%	1,000,975,328	10%	4.10%	-0.35%
2009	40,588,147	6%	912,595,635	2%	4.45%	0.19%
2008	38,182,917	3%	896,694,880	13%	4.26%	-0.41%
2007	37,091,392	10%	795,407,421	4%	4.66%	0.26%
2006	33,581,978	6%	762,344,708	4%	4.41%	0.08%
2005	31,775,076	11%	734,924,436	3%	4.32%	0.34%
2004	28,500,675	-	716,317,772	-	3.98%	-

* Formula = Total ICAP Eligible Expenditures / Total Direct Costs (Capital Expenditures)

Legislative Fiscal Analyst Comment: The federal government annually approves DOT&PF's Indirect Cost Allocation Plan. The plan for any particular year is based on the actual costs from two years prior (e.g. – the FY18 budget would be based on actuals from FY16). DOT&PF currently has an extension (from the federal government) to develop their ICAP for FY18. Further analysis may identify additional eligible indirect costs, which could allow further general fund reductions during the FY18 budget process.

7. **Offset UGF Reduction with Available Airport Receipts: ($1,499.9) UGF; ($12.7) GF Program Receipts (DGF)/ $1,512.6 Airport Receipts (Other).** In an effort to alleviate reliance on UGF, DOT&PF has been increasing various revenues at its non-international airports. Funding of just over $1.5 million GF would be replaced by projected available airport revenue.

Legislative Fiscal Analyst Comment: The FAA requires proceeds of aviation fuel taxes—and other revenue from airports constructed with federal receipts—to be spent for capital or operating costs of airports. Previously, the State (and FAA) considered expenditure tracking unnecessary because annual state expenditures on airports far exceeded annual aviation revenue. Last session, three fund codes were created in response to the federal concern for more explicit tracking. The codes are classified as dedicated (Other) funds (due to the federally restricted use) and may be used only in the DOT&PF budget for capital or operating appropriations for airports.

8. **Replace UGF with Motor Fuel Tax (DGF): ($64,821.0) UGF; $64,821.0 DGF.** The Governor has submitted legislation to increase the current motor fuel taxes:

- the gasoline tax would increase from 8 to 16 cents per gallon in FY18, and then to 24 cents in FY19;
- the marine fuel tax would increase from 5 to 10 cents per gallon in FY18, and then to 15 cents in FY19; and
- aviation fuel and gasoline taxes are also increased, but discussion is separated into the next item.

The bill creates a Transportation Maintenance Fund which would house the tax "receiving" accounts for highway fuel and marine fuel taxes (these accounts currently reside in the general fund). The new fund would be designated for "direct capital, operating, or maintenance costs of highways and highway infrastructure, construction of highway projects and ferries…"

The Governor's operating budget replaces $64.8 million of UGF with funds from the Transportation Maintenance Fund and reclassifies the funding as DGF. The table below identifies the amounts and locations of the fund source changes.

Highway/ Marine Fuel Tax Fund Source Changes		
Allocation	UGF	DGF
Central Region Highways and Aviation	(19,119.1)	19,119.1
Northern Region Highways and Aviation	(32,107.7)	32,107.7
Southcoast Region Highways and Aviation	(11,239.4)	11,239.4
Alaska Marine Highway System	(2,354.8)	2,354.8
Total	(64,821.0)	64,821.0

Legislative Fiscal Analyst Comment: Historically, there have been many attempts to designate or "reserve" motor fuel taxes for highway use in Alaska. A designation or dedication exists in almost every other state and at the federal level.

An argument could be made that highway and marine motor fuel taxes should currently be classified as DGF given current statutes and the rules for Designated General Funds. However, to date that action has not been taken.

9. **Replace UGF with Aviation Fuel Tax (Other): ($4,512.3) UGF; $4,512.3 Aviation Fuel Tax (Other).** As mentioned in item 8, the Governor has proposed an increase to the Aviation Fuel Tax (jet fuel) and Aviation Gasoline Tax:

- the jet fuel tax will increase from 3.2 to 6.4 cents per gallon in FY18 and then to 9.6 cents in FY19; and
- the aviation gas tax will increase from 4.7 to 9.4 cents per gallon in FY18 and then to 14.1 cents in FY19.

The Governor's budget replaces $4.5 million of UGF with the increased revenue expected from the tax increases. The table below identifies the amounts and locations of the fund source changes.

Aviation Fuel Tax Fund Source Changes		
Allocation	UGF	Other
Central Region Highways and Aviation	(1,381.1)	1,381.1
Northern Region Highways and Aviation	(2,319.3)	2,319.3
Southcoast Region Highways and Aviation	(811.9)	811.9
Total	(4,512.3)	4,512.3

Legislative Fiscal Analyst Comment: Both of these taxes are classified as "Other Dedicated" funding sources due to federal restrictions on their use. Any increase in revenue as a result of tax rate increases can be used to replace UGF currently in the budget. A major reclassification of all airport revenues occurred in the FY17 budget. Further discussion can be found in the 2016 Conference Committee book for DOT&PF.

OTHER ISSUES

10. **Rural Airport 5% Reduction Intent Language.** Included in the FY17 budget was intent language for DOT&PF to "work to implement cost savings and efficiencies in the operation of the rural airport system such that the UGF need for FY18 is reduced by 5%." The Governor's proposed FY18 budget does not include any reductions to rural airport funding. The agency has

stated that the intent language was considered during budget development; however, the budget as proposed does not reflect any reductions.

ORGANIZATIONAL CHANGES

There are no significant organizational changes.

CAPITAL REQUEST

The DOT&PF capital budget comprises the majority of the statewide capital budget each year. Typical programs include the Surface Transportation Program (receipts from the Federal Highway Administration) and the Airport Improvement Program (receipts from the Federal Aviation Administration). Both programs require state match components that are usually budgeted separately to allow for agency flexibility. The budget also typically has appropriations from the general fund for facility, harbor, airport, highway and Alaska Marine Highway vessel/terminal deferred maintenance, and for the stockpiling of materials for construction.

Atypical this year is the exclusion of project allocations in both the Surface Transportation Program and the Airport Improvement Program. DOT&PF is hoping to gain efficiencies in the administration of its federally funded capital improvement program by requesting significantly reduced annual capital budget requests without project specific allocations. Further discussion of this topic can be found in the Overview of the Capital Budget.

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University of Alaska

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$662,068.4**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	(0.4)			
Multi-Years/Specials	-			
Vetoes	-			
FY17 Management Plan (GF only)	**$662,068.0**	($0.4)	0.0%	
One-time Items Removed	-			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	578.6			4
FY18 Adjusted Base Budget (GF only)	**$662,646.6**	$578.6	0.1%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	(0.6)			
FY18 Governor's GF Increments/Decrements/Fund Changes	(5,428.0)			
FY18 Governor's Agency Request (GF only)	**$657,218.0**	($5,428.6)	-0.8%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Allocation			**($5,428.6)**	
Budget Reductions/Additions - Systemwide	2,329.2	(3,249.4)	(5,578.6)	**1,2,4**
Anchorage Campus	217,052.9	217,202.9	150.0	**5**

Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	86,245.4	86,640.4	395.0	**5**
Federal Funds (all allocations)	150,852.7	143,852.7	(7,000.0)	**2**
Total Non-General Funds (all allocations)	**$237,098.1**	**$230,493.1**	**($6,605.0)**	
Position Changes (From FY17 Authorized to Gov)	**4,734**	**4,270**	**(464)**	**3**
PFT	4,513	4,078	(435)	
PPT	221	192	(29)	
Temp	-	-	-	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$0.0**	**$0.0**	**$0.0**	

University of Alaska

The major goals of the University are to inspire learning and to advance and disseminate knowledge through teaching, research, and public service (emphasizing the North and its diverse peoples). Core services (in priority order) are as follows:

- Student instruction;
- Research: Advancing knowledge, basic and applied; and
- Service: Sharing knowledge to address community needs.

BUDGET SUMMARY

The FY18 University of Alaska (UA) general fund operating budget submitted by the Governor on December 15, 2016 is $5,428.6 (0.8 %) *below* the FY18 Adjusted Base [an increase of $150.0 Unrestricted General Funds (UGF) and a *decrease* of $5,578.6 Designated General Funds (DGF)]. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

MAINTENANCE OF SERVICES AND FUNDING REDUCTIONS

(Items 1, 2, and 4 are found within the Budget Reductions/Additions – Systemwide allocation.)

1. **University of Alaska FY18 Tuition Rate Increase: $4,421.4 University Receipts (DGF).** The Board of Regents determined that tuition rates would increase by 5% for the Academic Year 2018 (fall 2017 through summer 2018). The Board of Regents Policy 05.10.010 recognizes that state general fund support is not sufficient to pay the full cost of education and that students have a responsibility to contribute to the cost of their higher education. Tuition and student fees will be established to the extent practicable in accordance with the following objectives:

   - to provide for essential support to the university's instructional programs;
   - to make higher education accessible to Alaskans who have the interest, dedication, and ability to learn; and
   - to maintain tuition and student fees at levels that are competitive with similarly situated programs of other western states.

   Tuition revenues will be used primarily to maintain and expand the educational opportunities provided to students, to preserve and improve the quality of existing programs and support services, to respond to enrollment trends, and to implement new programs.

2. **Non-UGF Reductions: ($17,000.0) Total [($10,000.0) University Receipts (DGF)/ ($7,000.0) Federal Receipts].** Non-UGF reductions were included in the Governor's submission to better match estimated revenue and expenditures – basically technical adjustments to the University's FY18 budget request.

3. **University of Alaska Position Deletions.** Between the FY17 Authorized Budget and the FY18 Governor's budget submission, the University deleted a total of 464 positions. Of the positions deleted, 239 occurred in the FY17 Management Plan and another 225 positions were deleted in the FY18 Governor's Request.

4. FY18 Contractual Salary Increases: $578.6 University Receipts (DGF). The December 15th budget includes a total of $578.6 in previously negotiated compensation and benefit increases for the University of Alaska Federation of Teachers (UAFT). The compensation estimate includes the FY18 contract renewal amount for this union (2% plus a $900.00 lump sum, one-time payment). No UGF is included for these salary adjustments. The Local 6070, United Academics Faculty (UNAC), UA Adjuncts (UNAD), and Fairbanks Firefighters Union (FFU) contracts are under negotiation for FY18. In light of budget constraints and consistent with state guidance, the Board of Regents determined no across-the-board salary increases would be made for UA staff in FY18. The FY18 staff benefit rates are projected to be similar to the FY17 rates, thus no increase in cost is expected.

Legislative Fiscal Analyst Comment: No request is included in the budget until a collective bargaining agreement has been negotiated, ratified by the membership, and approved by the UA Board of Regents. It is anticipated that an amendment will be submitted by the Governor prior to the end of the legislative session.

MENTAL HEALTH TRUST FUNDING

5. Anchorage Campus: $1,937.6 Total [$150.0 GF/MH / $1,787.6 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other)]. FY18 will be the tenth year of zero-based budgeting for MHTAAR funding – meaning that all MHTAAR funding in state agencies is removed from state budgets and reconsidered by the Alaska Mental Health Trust Authority (AMHTA). Trustees approve operating and capital budgets and provide annual recommendations to the Governor and the legislature.

- The Governor's FY18 request includes one increment (Inc) and three one-time increments (IncOTI) for the Anchorage Campus projects supported by the AMHTA. Those projects total $545.0 ($395.0 MHTAAR/ $150.0 GF/MH) as follows:
  - **Disability Justice – Alaska Justice Information Center – IncOTI: $375.0 Total ($150.0 GF/MH/ $225.0 MHTAAR).** Funds will be used to support the operations of the Alaska Justice Information Center (AJIC). The AJIC collects data from key criminal justice agencies to create an integrated data platform to support many kinds of criminal justice research in Alaska.
  - **Housing – Grant 1377 Housing Continuum and Assisted Living Targeted Capacity Development – IncOTI: $50.0 MHTAAR.** These funds will be used in partnership with the Department of Health and Social Services by providing training to caregivers at assisted living homes and supported housing. The grants increase the capacity of these providers to house individuals with intensive behavioral health needs.
  - **Beneficiary Employment – Supported Employment Provider Training Infrastructure and Capacity – IncOTI: $65.0 MHTAAR.** These funds will be used to develop and implement a multi-level approach to benefits counseling and create a statewide system that includes training, credentials and certification for Community Rehabilitation Providers (CRPs) to provide quality employment placement and retention services.
  - **Workforce – Alaska Area Health Education Centers (AHECs) – Inc: $55.0 MHTAAR.** The AHECs will implement three community-based behavioral health day camps. Locations will include Northwest, Southeast, and the Yukon-Kuskokwim and will concentrate on behavioral health career exploration to encourage and recruit youth into behavioral health occupations. (In FY17, a similar increment included Barrow, the Interior, and Southcentral.)

- The Governor's FY18 request also includes five temporary increments (IncT) for the Anchorage Campus projects, totaling $1,392.6 MHTAAR that are related in some way to grants or projects begun in previous years. Since AMHTA reviews and re-approves all mental health projects each year, these are presented for legislative review and approval as well. Following is the list of these projects:
  - **Workforce Grant 1384 – The Alaska Training Cooperative – IncT (FY14-FY18): $984.0 MHTAAR.** The Training Cooperative will promote career development opportunities for non-degreed professionals, direct service workers, supervisors, and professionals in the behavioral health, home and community-based, and long-term care support services working with AMHTA beneficiaries.
  - **Workforce Grant 2347 – Maintain Workforce Director – IncT (FY14-FY18): $146.1 MHTAAR.** This grant is for a shared workforce development position, administratively housed within the University of Alaska Anchorage, Center for Rural Health and Health Workforce. The position acts as the lead point of contact on all health workforce projects and activities with emphasis and support of Medicaid Expansion, Reform and Redesign, and Criminal Justice Reinvestment.
  - **Disability Justice – Grant 582 Technical Assistance & Implementation of Disability Abuse Response Teams (D.A.R.T.) in Targeted Communities – IncT (FY14-FY18): $110.0 MHTAAR.** This project provides training and information in collaboration with the Alaska Network on Domestic Violence and Sexual Assault to address the needs of Trust beneficiaries who are victims of crime.
  - **Disability Justice – Grant 573 Interpersonal Violence Prevention for Beneficiaries – IncT (FY14-FY18): $80.0 MHTAAR.** This project is designed to build community behavioral health provider skills and capacity by using a train-the-trainer model to deliver a social skills curriculum to Trust beneficiaries.
  - **Disability Justice – Specialized Skills/Services Training on Serving Criminal Justice Involved Beneficiaries – IncT (FY14-FY18): $72.5 MHTAAR.** This project supports coordination of a two-day, statewide conference focusing on best-practice community treatment modalities, interventions, and supports for serving offenders in the community with cognitive impairments. The project is managed by UA – Anchorage Campus through the Center for Human Development.

BOARD OF REGENTS' REQUEST

The FY18 Governor's operating budget submitted on December 15th is less than the University Board of Regents' request by approximately $33.2 million (of which $16.2 million is UGF).

ORGANIZATIONAL CHANGES

The Governor's FY18 budget maintains the FY17 single appropriation budget structure.

CAPITAL REQUEST

There are no FY18 University of Alaska capital budget requests in the Governor's submission. The Board of Regents' Budget reflected a $50 million UGF request for Facilities Deferred Maintenance/Renewal & Repurposing. The University of Alaska system's deferred maintenance need is over $1 billion.

Judiciary

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$107,063.7**			
FY17 Fiscal Notes	67.9			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	-			
FY17 Management Plan (GF only)	**$107,131.6**	$67.9	0.1%	
One-time Items Removed	-			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	1,873.0			
FY18 Adjusted Base Budget (GF only)	**$109,004.6**	$1,873.0	1.7%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(3,671.8)			
FY18 Governor's Agency Request (GF only)	**$105,332.8**	($3,671.8)	-3.4%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Allocation			**($3,671.8)**	
Appellate Courts	7,141.4	7,106.4	(35.0)	**2**
Trial Courts	84,886.7	81,504.9	(3,381.8)	**1**
Administration and Support	10,368.1	10,263.1	(105.0)	**2**
Therapeutic Courts	4,879.9	4,729.9	(150.0)	**2**

Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	1,711.1	1,806.1	95.0	**3**
Federal Funds (all allocations)	1,325.6	1,225.6	(100.0)	
Total Non-General Funds (all allocations)	**$3,036.7**	**$3,031.7**	**($5.0)**	
Position Changes (From FY17 Authorized to Gov)	**826**	**781**	**(45)**	
PFT	768	739	(29)	
PPT	51	37	(14)	
Temp	7	5	(2)	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	2,525.4	-	2,525.4	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$2,525.4**	**$0.0**	**$2,525.4**	

Judiciary

Alaska has a unified, centrally administered, and primarily state-funded judicial system, which consists of three independent entities: the Alaska Court System, the Alaska Judicial Council, and the Alaska Commission on Judicial Conduct. The Judiciary's budget is presented in four appropriation requests: the Alaska Court System, Therapeutic Courts, the Alaska Commission on Judicial Conduct, and the Alaska Judicial Council.

There are four levels of courts in the court system, each with different powers, duties, and responsibilities. The four levels of courts are the Supreme Court, the Court of Appeals, the Superior Court, and the District Court. The Supreme Court and the Superior Court were established in the Alaska Constitution. The District Court was established by state statute in 1959. The Court of Appeals was established by state statute in 1980. Jurisdiction and other areas of the judicial responsibility for each level of court are set out in Title 22 of the Alaska Statutes.

BUDGET SUMMARY

The Judiciary's FY18 general fund operating budget request is $3,671.8 (3.4%) *below* the FY18 Adjusted Base [all Unrestricted General Funds (UGF)]. The Governor transmitted the Judicial branch's operating request to the legislature without modification. Significant issues are highlighted in the notes below and correspond to the numbers in the last column on the preceding spreadsheet.

FUNDING REDUCTIONS AND MAINTENANCE OF SERVICES

1. Trial Courts – Reductions in Personal Services and Other Administrative Costs: ($3,381.8) UGF.

- **Personal Services ($1,400.0) UGF** – The Court System will accumulate savings through:
    - **Attrition,** much of which was realized as a by-product of the court's mini-Retirement Incentive Plan (RIP). The RIP was offered to magistrate judges and court staff who had been eligible to retire for at least three years (as of July 1, 2016) and had worked for the court system for at least ten years. Employees meeting this criteria and agreeing to adjust their retirement plans to retire by August 31, 2016 received a severance payment equal to three months of the employee's salary; and by
    - **Holding 10 positions vacant** in FY18.

> **Legislative Fiscal Analyst Comment:** With the exception of managing emergency proceedings and arraignments, the Court System continues to be closed on Friday afternoons.

- **Contractual Services ($1,522.0) UGF –** Savings are attributable primarily to selection of a new internet service arrangement. By switching from a managed, dedicated bandwidth network to a consumer-grade private network available over the internet using Meraki hardware (managed internally), the Court projects a savings of approximately $900.0 for statewide services to most court facilities. Additional contractual savings will be achieved through reduced lease, postage and freight costs, as well as savings resulting from eliminating real-time reporters to support a Bethel judge who has retired.
- **Commodities ($385.0) UGF –** Purchase of all supplies will be minimized throughout the court system, particularly paper and printer supplies due to the Courts' expansion of electronic filing.
- **Capital Outlay ($74.8) UGF**

2. Other (Non-Trial) Courts UGF Reductions: ($290.0) UGF.

- Appellate Courts $35.0 UGF reduction in commodities.
- Administration and Support $105.0 UGF reduction in contractual services and supplies.
- Therapeutic Courts $150.0 UGF reduction in contractual services.

MENTAL HEALTH TRUST FUNDING

3. Ongoing Mental Health Trust Authority Recommendations – Therapeutic Courts: $219.4 Mental Health Trust Authority Authorized Receipts (MHTAAR) (Other). All MHTAAR funding in state agencies is removed from the adjusted base and reconsidered by the Alaska Mental Health Trust Authority (AMHTA) each fiscal year (zero-based budgeting). The AMHTA is recommending $219.4 in FY18 ($255.9 less than FY17). MHTAAR funding for the Mental Health Trust Disability Justice Initiative is as follows:

- **$204.4 IncT (FY09-FY18)** – continue Juneau Mental Health Court funding to provide a therapeutic court alternative for AMHTA beneficiaries. The program's objective is to identify the underlying reasons for an individual's contact with the criminal justice system, and develop and monitor court-ordered treatment plans; and
- **$15.0 IncOTI** – training for Therapeutic Court staff.

ORGANIZATIONAL CHANGES

There are no organizational changes requested.

CAPITAL REQUEST

The FY18 Judiciary capital budget totals $2.5 million UGF for deferred maintenance projects. In prior years, the Governor has not included all of the Judiciary's capital projects in the budget request. This year, all $2.5 million UGF requested by the Judiciary was included in the Governor's request.

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Alaska Legislature

All Dollars in Thousands

	(GF Only)	Change	% Change	See Note:
FY17 Conference Committee (GF Only)	**$64,739.4**			
FY17 Fiscal Notes	-			
CarryForward	-			
Misc Adjustments	-			
Multi-Years/Specials	-			
Vetoes	-			
FY17 Management Plan (GF only)	**$64,739.4**	$0.0	0.0%	
One-time Items Removed	-			
Misc Adjustments	-			
Agency Transfer In/ Out	-			
Temporary Increments (IncTs)	-			
Maintenance Increments	-			
FY18 Contractual Salary Increases	1,240.4			3
FY18 Adjusted Base Budget (GF only)	**$65,979.8**	$1,240.4	1.9%	
Lang/Lang OTIs/MiscAdj/Carryforward/MultiYears/Contingent	-			
FY18 Governor's GF Increments/Decrements/Fund Changes	(159.9)			
FY18 Governor's Agency Request (GF only)	**$65,819.9**	($159.9)	-0.2%	

FY18 Governor's Increments, Decrements, Fund Changes and Language	FY18 Adjusted Base Budget (GF Only)	FY18 Governor's Request (GF only)	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Appropriation/Allocation			**($159.9)**	
Legislative Council/ Administrative Services	8,998.8	9,530.3	531.5	1
Legislative Council/ Legislature State Facilities Rent	1,499.6	1,653.1	153.5	2
Legislature State Facilities Rent Anchorage 716 W 4th	844.9	0.0	(844.9)	2

Non-General Fund Agency Summary	FY18 Adjusted Base Budget	FY18 Governor's Request	Change from FY18 Adj Base to FY18 Governor's Request	See Note:
Other State Funds (all allocations)	809.8	809.8	-	
Federal Funds (all allocations)	-	-	-	
Total Non-General Funds (all allocations)	**$809.8**	**$809.8**	**$0.0**	
Position Changes (From FY17 Authorized to Gov)	**546**	**546**	**0**	
PFT	252	236	(16)	
PPT	294	310	16	
Temp	-	-	-	

Governor's Capital Request	State Funds (GF + Other)	Federal Funds	Total	See Note:
Planning and Research	-	-	-	
Maintenance and Repairs	-	-	-	
Remodel, Reconstruction and Upgrades	-	-	-	
New Construction and Land Acquisition	-	-	-	
Equipment and Materials	-	-	-	
Information Systems and Technology	-	-	-	
Other	-	-	-	
TOTAL CAPITAL	**$0.0**	**$0.0**	**$0.0**	

Alaska Legislature

The Alaska State Legislature sets policy through the adoption of laws and has the power of appropriation as provided in the Alaska Constitution and in state statute.

BUDGET SUMMARY

The budget submitted to the Governor is traditionally a preliminary draft that has not been formally approved by legislative leadership. The draft budget is $1.1 million (1.6%) above the spending level authorized for FY17 [$549.0 Unrestricted General Funds (UGF) and $531.5 Designated General Funds (DGF)]. Significant issues are summarized below.

MAINTENANCE OF SERVICES

1. **Administrative Services – Rental Income Associated with the Anchorage Benson Building: $531.5 GF/Program Receipts (DGF).** With the purchase of the Anchorage Benson Building, the legislature moves from leased office space to owned space. The 1st and 3rd floors of the Benson Building are leased to private sector clients for the next 10 years and for 18 months, respectively. Administrative Services will be collecting receipts associated with the rental space and is requesting authority to use those receipts to pay utilities and other operating costs.

   A request to spend FY17 rental receipts is expected to be included in the supplemental process, along with a request for additional funds for operating expenses for July-October 2016 and two weeks rental costs for the Legislative Office Building on 4th Avenue.

2. **Legislature State Facilities Rent: ($691.4) UGF.** The following changes were submitted to align the legislature's FY18 costs with anticipated expenditures:

   - Transferred existing funding from the "Other than Anchorage 716 W. 4th Avenue" allocation to the Legislature State Facilities Rent allocation;
   - Added $153.5 UGF for increased costs associated with existing leases approved by Legislative Council; and
   - Eliminated all remaining funding ($844.9 UGF) associated with the Anchorage 716 W. 4th Avenue building.

3. **FY18 Health Insurance and Benefit Rate Increases: $1,240.4 UGF.** The following rate increases are included in the legislature's budget request:

   - Alaska Care Health Insurance – The monthly employer rate is increasing by $209 per employee (from $1,346 to $1,555) for a total of $1,150.5.
   - Working Reserve Rate – The employer rate is increasing by 0.10% ($33.5).
   - Workers Compensation Rate – The employer rate is increasing by 0.17% ($56.4).

OTHER ISSUES

Legislative Audit Performance Reviews: The FY17 budget included a $990.4 decrement eliminating performance reviews conducted pursuant to Chapter 19, SLA 2013 (HB 30). The legislature then added (as a one-time increment) $53.2 and 1 PPT position in order to fund completion of a review of the Department of Education and Early Development that was underway.

Standard treatment of one-time-increments is to remove them from the base in the following year. That action was not taken in this preliminary budget request. Performance review statutes were not repealed; if legislators choose to conduct no performance reviews in FY18, they may also wish to consider decrementing the budget by $53.2 and 1 PPT position.

CAPITAL REQUEST

There are no requested capital projects.